Austria Sch22	Indonesia Rp3100	Philippines . Pesos40
Bahrain Din0.650	Iran Rls160	Portugal Esc120
Belgium BFr48	Israel NS3.50	S.Arabia Rls7.00
Canada .... C$1.00	Italy L1700	Singapore ... S$4.10
Cyprus .... C£0.90	Japan Y600	Spain Pta145
Denmark . DKr10.00	Jordan Fils.500	Sri Lanka Rup30
Egypt .... E£2.25	Kuwait Fils.500	Sweden SKr9.00
Finland Fmk7.00	Lebanon ... £L125.00	Switz SFr2.30
France FFr6.50	Lux LFr48	Taiwan .... NT$65
Germany DM2.30	Malaysia Rin4.25	Thailand Bht50
Greece Dr120	Mexico Pes300	Tunisia ... Din0.800
Hong Kong ... HK$12	Morocco Dh6.00	Turkey L600
Iceland Ikr125	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr10.00	USA $1.00

EUROPE'S BUSINESS NEWSPAPER

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POLAND

New Western loans become crucial

Page 18

World News

Official concern for ailing Hirohito

Emperor Hirohito's blood pressure fell dangerously low and doctors began a fight to stabilise his condition. They gave the 87-year-old Hirohito several transfusions. "His fever, pulse and blood pressure indicate that his condition warrants a certain amount of concern," said Akira Takagi, chief palace physician.

ETA hostage freed

ETA, the Basque guerrilla organisation, released Spanish businessman Emiliano Revilla near the spot in central Madrid where he was seized eight months ago at the start of the country's longest politically motivated kidnapping. Page 5

Suez tolls up

Egypt, which is anxious to boost its hard currency earnings amid growing balance of payments problems, has increased Suez Canal tolls by an average 8 per cent from the beginning of next year. Page 3

Chadli sacks critics

President Chadli Bendjedid of Algeria, seeking to win popular backing for his political and economic reforms after this month's riots, sacked two prominent members of the Algerian leadership and replaced them with his supporters. Page 3

Indian farm protest

Several thousand Indian farmers staging a sit-in near the central government offices in New Delhi clashed with police over the weekend. At least nine farmers and a dozen policemen were injured in protests over price policy. Page 4

Burma reforms

Burma's military rulers, who are dismantling a 26-year-old socialist system, announced new steps at the weekend to encourage private enterprise. Page 4

Irish mortar attack

An elderly woman died of a heart attack while being evacuated from her home after a mortar attack on a police station at Roslea, County Fermanagh, near the border with the Irish Republic.

Locust taskforce call

International experts have called on the United Nations to set up a rapid intervention force to fight Africa's worst locust plague this century.

Peace on agenda

Iran and Iraq, their armies still only a few paces apart in parts of the Gulf War front line, are due to meet in Geneva today in another attempt to consolidate the fragile ceasefire which has been in place since August.

China blast kills 17

An underground explosion killed 17 miners at a coalmine in Qitaihe, northeast China, when the blast caused the shaft to collapse blocking the pithead.

Oman-Yemen pact

Oman and South Yemen, after 15 years of border disputes, will sign today a wide-ranging cooperation agreement on trade, economics, and communciations, according to South Yemeni Foreign Minister Abdul-Aziz al-Dali.

Double bomb attack

Two bombs exploded in the mainly German-speaking Alto Adige area of northern Italy, seriously damaging a Roman Catholic church and wrecking cars near an Italian-language school. Police said the attacks were probably carried out by German separatists.

New date for Buran

Soviet space officials dismissed Saturday's last-minute halt to the maiden flight of the space shuttle Buran as a minor hitch and said a fresh attempt will be made after the November 7-8 Revolution Day holiday.

Imelda faces court

Imelda Marcos, wife of deposed Philippines President Ferdinand Marcos, arrived in the US after a tearful farewell from her husband, to hear fraud charges. Page 2

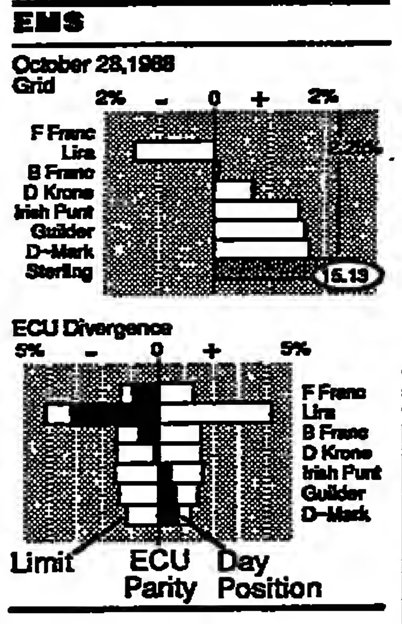
Business Summary

Maxwell buys US airline publishers for $750m

ROBERT MAXWELL, the British publisher, yesterday clinched his first major information deal in the US with a $750m agreement to acquire Dun & Bradstreet's official airline guides division. The company publishes official information on airline schedules and fares and also has a stable of magazines relating to the travel industry such as Frequent Flier, Pocket Flying Guide and Travel Age. Page 18

EUROPEAN Monetary System: Signs of a slight easing in the Bundesbank's monetary stance and a sharp improvement in the French trade balance reduced pressure within the EMS last week. Frankfurt interest rates had a softer tone and the surprising French trade surplus in September helped keep the franc within its agreed limits against the D-Mark.

EMS



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

FRENCH banking authorities have given Mr Georges Pebereau and his French and international partners permission to increase above 10 per cent their shareholding in Société Générale, France's fourth-largest bank. Page 22

BANK of Japan is considering turning its bureaucratically controlled official discount rate into a market-regulated interest rate, in response to the continuing liberalisation of Tokyo's financial system. Page 22

GILT-EDGED securities market held on to the gains it made after Thursday's trade figures and ended the week higher for the fifth week in succession. Page 20

AETNA LIFE and Casualty, the largest shareholder-owned US insurer, has reported its fifth successive fall in quarterly earnings on a year-to-year basis as it continued to suffer from a modest downturn in its casualty-property business. Page 22

RAND MINES, the South African mining company, has reversed its interim profit decline and recorded an increased profit for the year ended September, 1988. Page 22

WORMALD International, the long-troubled Australian company, is to be solely a fire-protection group under the direct control of Reil Corporation. Page 22

MEDIOBANCA, the Milan merchant bank, is to move into its final stage of privatisation by the end of November, it was announced yesterday by Mr Francesco Cingano, chairman. Page 22

NORANDA, part of Edward and Peter Bronfman's stable of companies, saw profits rise by 56 per cent in the quarter and 104 per cent in the first nine months in line with other Canadian resource companies. Page 22

OK BAZAARS, one of South Africa's retail chains, lifted sales by 22 per cent in the six months ended September, 1989, reflecting what it called abnormal factors. Page 22

AMERICAN Telephone and Telegraph efforts to establish itself as a contender in the world computer industry have received a boost with the award of a $4.5bn contract to supply minicomputers to the Pentagon. Page 2

Iata warns of 'strangled' world air transport system

By Michael Donne, Aerospace Correspondent, in London

THE GROWTH of world air transport could be "strangled" by continuing congestion arising from increasing traffic coupled with a serious lack of adequate airport and air traffic control facilities, according to the International Air Transport Association (Iata), which represents more than 170 of the world's major airlines.

Dr Gunter Eser, director-general of Iata, which represents most of the world's major airlines, issues this warning in a report for the association's annual meeting in Montreal today.

He points out that the upsurge in traffic has been beneficial financially, with airline profits on international operations this year likely to show a "significant improvement" to more than $1bn, compared with $800m last year, despite increases in costs.

But that traffic growth is also having an adverse effect in increasing congestion at airports, arising from "the lack of adequate airport and airspace capacity to meet the present and future demand at the world's major aviation centres."

Describing this as "a major problem", Dr Eser says it will get worse as traffic growth continues at an average 5-6 per cent a year.

"This means that the number of passenger journeys can be expected to double to about 2bn by the year 2000. It is envisaged that there will be about 50 per cent more aircraft in airline service at that time, totalling more than 11,000, and the volume of aircraft movements will soar."

Dr Eser warns that "with such numbers it is a matter of grave concern that the supporting infrastructure has not kept pace.

"If aviation is to continue to underpin the expansion of trade and tourism, create economic opportunities and provide more jobs, it is clearly essential to ensure that airport and airway congestion are not allowed to strangle its growth.

"The major problem areas of crowded skies and airports are in North America, Europe and the Asia/Pacific region. On busy routes into and across Europe in the peak summer period this year, daily traffic reached levels expected for the mid-1990s, leading to heavy and costly delays.

"With the increasing pressures in the European Community for further liberalisation of air transport, even higher growth can be expected".

A special task force set up by Iata to study the problem has identified 35 congested airports in Europe; seven of which are considered to be critical. They are Heathrow and Gatwick near London, and Munich, Dusseldorf, Frankfurt, Linate (Milan) and Fiumicino (Rome).

At these airports, Iata has recommended the establishing of joint airport, air traffic control and airline task forces to analyse the problems and develop possible solutions.

Dr Eser also stresses that because of air traffic control congestion in Europe, "there is a greater requirement for night movements at airports because of capacity restrictions during daytime hours."

He points out that many Iata airlines have purchased billions of dollars worth of quieter modern aircraft but must still comply with noise rules established many years ago in the early era of the jet aircraft.

"The relaxation of night restrictions for the new, quieter aircraft would make a useful contribution to increased airport utilisation", he says.

Dr Eser also calls for the construction of additional runways and airports, which he describes as the only way of providing big gains in air transport system capacity.

Dukakis cuts Bush lead with election only a week away

By Stewart Fleming in Washington

DEMOCRATIC candidate Governor Michael Dukakis is narrowing Vice-President George Bush's lead in the US presidential election with eight days to go before Americans vote.

But most analysts continue to doubt that the Massachusetts Democrat can deny the Vice-President victory on November 8.

A strong finish by Mr Dukakis, even if he is finally defeated, would help his party retain control of Congress, however, and make Mr Bush's job as President more difficult.

Mr James Baker, the former US Treasury Secretary who is now chairman of the Bush campaign, agreed yesterday that the race was "tightening up," something he said the Bush campaign had been expecting.

But, he indicated, some of the states in which Mr Dukakis is catching up were midwestern industrial states which are essential to a Democratic victory and which Mr Dukakis should already have put safely away. "We see movement [towards Dukakis] in some [of his] base states which Governor Dukakis should have locked up some time ago," he said.

Public opinion polls, such as one to be published today in Time magazine, are still giving Mr Bush a comfortable lead of about 10 percentage points nationally. His position in some key regions such as the South is generally considered to be impregnable.

As a result, political analysts believe that Mr Dukakis faces the herculean task of having to carry all the major industrial states, even Ohio and New Jersey where he is still behind, as well as California where new polling data suggests Mr Bush's lead seems to have dwindled to only 5 percentage points, if he is to scrape to a victory.

Mr Bush has started to come out from the cocoon in which he has isolated himself from the press and begun to accept requests for television interviews.

He is, however, keeping up the negative attacks on Mr Dukakis which have worked so effectively since the campaign began in earnest in September rather than present himself as being safely above the fray.

In a move which suggests that Mr Dukakis's attacks and his appeal to working class Americans to return to the Democratic fold have hit home, Mr Bush has begun to respond to Mr Dukakis's charges that the Bush campaign of "distortions, distractions and downright lies" has deprived the American people of the debate over the country's future.

In an effort to to get off the defensive, Mr Bush has started to accuse Mr Dukakis of inciting a class war, saying that the Governor is trying "to divide Americans by class" and adding, "I am not going to let that liberal Governor divide the country. I am going to bring it together."

Mr Bush's attempts to rebut charges that he is mainly responsible for the lowering of the tone of the campaign was not helped yesterday by the disclosure that the Republican Party in Maryland had put out a campaign flier linking Mr Dukakis to Mr Willie Horton, the black convicted murderer who was let out of a Massachusetts goal on leave and raped a white woman in Maryland.

"Have you heard of the Dukakis/Willie Horton team?" the four-page fund-raising letter asks, adding, "You, your spouse, your children, your parents and your friends can have the opportunity to receive a visit from someone like Willie Horton if Mike Dukakis becomes President."

Mr Baker, faced with continuing charges that the Republicans have exploited racial tensions in their campaign, yesterday denounced the letter saying that the Bush campaign could not control every local Republican party.

Muscovites fail to set store by shops

By John Lloyd in Moscow

SOVIET OFFICIALS who are trying to privatise selected pieces of the economy have found they cannot give it away. This is because many believe that, while working for the state may be bad, working for yourself may be worse.

Last week the Moscow central trade organisation held an auction of 85 shops in the capital. "Auction" is hardly the word, although it was the word used. The shops were simply offered on long leases to whoever wished to run them. The buyers were sceptical: by the end of the event only 48 shops had gone private.

Muscovites, a people schooled in cynicism, commented at the auction that the trade organisation was merely passing the buck to hardworking fools who would then pay the bureaucrats' wages. "There isn't any sense in taking on such a venture when they (the authorities) aren't improving their side of things," was one comment.

This was despite the presence at the meeting of Mr Stanislav Smirnov, who earlier this year, with his family and five friends, took over a bread shop. He told the would-be entrepreneurs that his turnover had risen from 26,000 roubles ($42,000) to 78,000 roubles in two months. Wages had been raised to 350 roubles a month – nearly twice the average wage.

"There should be no queues in shops," Mr Smirnov told the meeting. "Queues make both shopkeepers and customers anxious."

Continued on Page 18
Editorial comment, Page 16

Two more admit role in Japanese market scandal

By Stephen Wagstyl in Tokyo

TWO MORE leading Japanese politicians have admitted their involvement in the country's widening stock market scandal.

The disclosures at the weekend dashed any hopes Mr Noboru Takeshita, Prime Minister, might have had of a swift end to the four-month-old affair.

The scandal has stymied the passage through the Diet (Parliament) of a controversial government tax reform bill.

On Saturday, Takao Fujinami, a former chief Cabinet secretary, admitted his aide had made a Y24m ($192,000) profit dealing in shares of Recruit Cosmos, the company at the centre of the affair. Mr Hideo Watanabe, a ruling party member of the Diet, confirmed that shares had been bought in his name by his secretary. The estimated profit was about Y20m.

The revelations brought to 12 the number of politicians who have been linked to the affair. Among them is Mr Kiichi Miyazawa, the Finance Minister, who has been under intense attack from opposition parties after it was disclosed that his name appeared on a list of buyers of Recruit shares.

Last week Mr Miyazawa rejected calls for his resignation, insisting that his name had been lent without his knowledge by his secretary to a friend.

Other leading politicians have managed to fend off direct attacks because only their aides' names, not their own, appear on the lists.

They include Mr Takeshita, Mr Shintaro Abe, the ruling Liberal Democratic Party's secretary general, and Mr Yasuhiro Nakasone, the former Prime Minister.

The scandal erupted in June when newspapers revealed that 76 prominent people had been offered shares on a preferential basis in Recruit Cosmos, a property company, before it was floated in 1986 by its parent Recruit. The recipients made huge profits.

Subsequently two more distribution channels were unearthed – as well as giving selling shares to 76 individuals directly, Recruit offered stock through two affiliates, Do Best and Eternal Fortune.

More names could be disclosed because the Tokyo Public Prosecutor's office has obtained lists of Recruit Cosmos shareholders. It is investigating allegations that the company tried to bribe an opposition Diet member to stop investigating the affair too vigorously.

The impact of the scandal on tax reform is uncertain. Last week the Government bulldozed through a parliamentary committee a schedule for public hearings on tax reform, after abandoning efforts to win opposition support for the proposed timetable.

However, further Recruit revelations might weaken the ruling party's resolve.

● Japan said it was dissatisfied by the US conditional rejection of a petition by the US rice industry seeking retaliation against Japanese exports if Japan refused to open its markets, Reuter reports from Tokyo.

Najibullah seeks international talks to settle Afghan future

By Christina Lamb in Islamabad

PRESIDENT Najibullah of Afghanistan has called for the United Nations to organise an international conference to settle the future of the country.

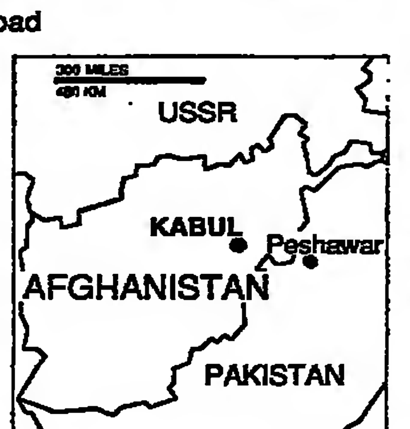
In a speech to Parliament he said that the conference should consider the non-alignment and possible demilitarisation of Afghanistan as well as providing an international aid package for reconstruction.

Dr Najibullah's offer has been rejected by the Afghan resistance leadership who termed it "the act of a drowning man clutching at any straw to save himself".

The leaders of the seven-party alliance have said repeatedly that any proposal made by Dr Najibullah will be unacceptable and are holding out for direct talks with the Soviets, which would exclude Dr Najibullah's ruling Communist Party (PDPA).

An offer last week by the President to meet the resistance leaders in the holy city of Mecca was similarly rejected.

Dr Najibullah may be trying to show that he is willing to compromise but the Soviets appear to have come to the conclusion that while Dr Najibullah remains on top, formation of a broadbased Government in Kabul, acceptable to a majority, would be impossible. The Soviets have also admitted that he has become a liability.



They have abandoned efforts to forge unity between rival factions of the PDPA and with the arrival of of the senior and influential Mr Yuli Vorontsov as Ambassador in Kabul, seem bent on expelling from the party anyone seen as a hurdle to the formation of a neutral government.

Shortly after Mr Vorontsov's arrival as many as 350 members of the PDPA were arrested at a Central Committee meeting as well as two members of the Politburo. Mr Vorontsov's appointment suggests that the Kremlin is taking direct control in Kabul and is preparing the ground for a neutral government. Dr Najibullah's offer seems like a bid to assert his authority.

Meanwhile, in a separate but related turnaround, Pakistan has threatened to abandon the deeply-divided Afghan resistance alliance and promote King Zahir Shah, Afghanistan's former leader, as head of a neutral government.

All supplies to the seven-party alliance have been stopped and according to a government official in Islamabad "the race for the king is on. We want to get him before the Soviets can."

There appear to be several reasons for the new policy in Islamabad. Pakistan has been badly shaken by recent Soviet threats of reprisals for its alleged violations of the Geneva Accords, signed earlier this year, under which the Soviet Union agreed a timetable for withdrawal.

Daily bomb attacks in the frontier provinces have recently spread to busy shopping areas in Islamabad and Lahore.

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THE MONDAY INTERVIEW

Isao Nakauchi, Japan's chain store magnate, an unlikely member of the country's business elite, beats a drum for one of the key modernisations yet to be accomplished – the liberalisation of retail distribution

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OVERSEAS NEWS

S African liberals consider uniting

By Anthony Robinson in Johannesburg

BUOYED up by their improved performance at last week's municipal elections, leaders of South Africa's divided "liberal left" are exploring proposals for unity with a view to fighting the next general election on a common platform.

The Progressive Federal Party (PFP), under its new leader, Dr Zach de Beer, won 18 out of 51 seats in Johannesburg and, together with Independents, retained control of both Durban and Cape Town city councils.

The Independent Party, led by Dr Dennis Worrall, the former ambassador to London, also put up a strong showing, especially at Somerset West in the Cape, where Dr Worrall narrowly missed defeating Mr Chris Heunis, the Minister for Constitutional Development, at the May 1987 general elections.

In the Transvaal, Mr Wynand Malan's National Democratic Movement also retained support from disaffected liberal Afrikaaners in the wealthier northern suburbs of Johannesburg.

With speculation mounting about the possibility of early general elections in 1989, however, all three see the merit of combining rather than competing with each other for the 15 to 20 per cent "liberal vote".

Dennis Worrall

Wynand Malan

Dr Worrall in particular argues that such a united left should forge political alliances across the colour line with "moderate" black leaders like Zulu Chief Mangosuthu Buthelezi, the Rev Allan Hendrickse, leader of the coloured Labour Party, and Indian leaders. Obstacles in the path of unity include personal rivalries between Mr Malan and Dr Worrall and different approaches to the extra-parliamentary opposition and black leaders.

Meanwhile, the final results of last week's elections show that the Conservative Party pushed up its share of the poll from 28 per cent at the 1987 general elections to 33 per cent. It won control of 68 town councils in the Transvaal against 20 for the National Party, and 13 in the Free State against 23 for the National Party.

But its share of the poll was less than it achieved in two of the three Transvaal byelections earlier this year, while it also failed to capture Pretoria and a string of larger Transvaal town councils like Tzaneen, Brits and Vereeniging in areas with sitting CP MPs. Its failure to penetrate more than marginally into Natal and the Cape also indicates that the CP may already have reached its peak.

According to Mr Donald Simpson, an academic analyst at Potchefstroom University, the ruling National Party would lose around 20 of the 123 parliamentary seats it won in May 1987 if general elections were to be held now on the basis of last week's voting pattern.

But it would still win around 50 per cent of the popular vote, compared to 33 per cent for the CP and around 17 per cent for the PFP. It would thus retain a comfortable 100 seats, against roughly 45 for the CP and 20 for a united left wing front.

In broad terms, two thirds of the white electorate voted for various degrees of apartheid reform at the municipal elections, while one third showed their desire for a return to the rigid racist apartheid policies of the old National Party under leaders like Dr Hendrik Verwoerd.

Corruption claim by Mexican oil union

By Richard Johns in Mexico City

MEXICO's powerful and wealthy oil workers' union is ruthlessly pressing ahead with corruption charges against Mr Mario Ramon Beteta, former director general of the state petroleum corporation Pemex, in a move clearly aimed at embarrassing President-elect Carlos Salinas Gotari. Allegations against Mr Beteta, who is now governor of the State of Mexico, relate to the establishment of the shipping company Flota Petrolera Mexicana, its purchase of two Yugoslav tankers with a loan from a state bank set up to provide finance for fishing vessels and the lease of them to Pemex for a 10-year period.

The document submitted to the Chamber of Deputies a week ago by one of the union's seven members said Beteta obtained illegal benefits of $49m (£28m) as a result of the deal.

The charges are being investigated by a special commission of the legislature set up despite President Miguel de la Madrid's prompt public defence of Mr Beteta, who strenuously denies the charges.

The move by the Union Oil Workers of the Mexican Republic (STPRM) is seen here as an uncompromising show of muscle *and* a *reminder* that *if* its seven deputies were to shift to the opposition in the ruling legislature, the Institutional Revolutionary Party's majority would be reduced to only six.

It is also clearly a stern message to Mr Salinas that the union wants Mr Francisco Rochas, the present director general, to remain in his post.

It is not known whether Mr Salinas intends to appoint his own man to head Pemex, which is the single most important economic institution in the country but one hampered in its freedom of action by the existence of the oil workers' union with its enormous disruptive potential and uncompromising independence.

The STPRM is believed to have been bitterly opposed to Mr Salinas's nomination for the presidency and critical of the financial constraints imposed on Pemex when he was Minister of Planning and the Budget .

At a press conference, Mr SalvadorBaragan Comacho, secretary-general of the oil workers' union, was critical of the way in which the head of state had sprung to the defence of Mr Beteta when the charges were first made, describing him as "a patriotic public servant, efficient and honest."

The allegations were first levelled against President Beteta by a Communist deputy in July 1986.

The oil workers' union is part of the Confederation of Mexican Workers, whose leadership is very much part of the PRI regime. Mr Fidel Velasquez, overlord of the CTM, is sitting uneasily on the fence, *saying he has no opinion at the* moment.

The whole affair is reminiscent of how Mr Jorge Diaz Serrano, another former head of Pemex, was charged with and convicted of embezzling $34m in connection with the purchase of two oil tankers after President de la Madrid had assumed power in 1983.

Where presidents meet to produce fine phrases

Gary Mead observes the Group of Eight at work

THE URUGUAYAN beach resort of Punta del Este is dead for nine months of the year.

A playground of jetset Argentines, it mutates into an outpost of Buenos Aires between December and March. At other time, it is definitely *not the place to be seen. Or at* least it wasn't until last week*end, when seven Latin Ameri*can presidents, and their outsize *entourages, invaded* it.

They were there to stage the *Second Meeting of* the Permanent Consultative and Political Agreement Body, otherwise known as the Group of Eight.

The group likes out-of-season resorts. Its inaugural meeting a year ago was in Acapulco, Mexico, where Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay and Venezuela agreed that "peace, democracy and development" should be at the heart of their relationship, now that they were all democracies.

Panama has since fallen by the wayside, as a result of General Manuel Noriega orchestrating the downfall of President Eric Arturo del Valle. With its membership suspended until it returns to the Acapulco norms, Panama was, by mutual if unstated agreement, a non-country this time.

It still had its symbolic place. In the huge, *echoing* school gym where the seven presidents *sat to* announce their "Uruguay Declaration", a *large motif of the group hung* from the wall behind them: a *blue circle* with *eight, not* seven, sheriff-badge gold stars.

The same sense of unreality pervaded the declaration itself, which will be recalled *for its* failure to break out of several vicious circles bedevilling Latin America.

It says precisely nothing new, and that in itself may be an important clue to the nature of Latin America's problems.

Of the issues on the agenda, the seven countries' combined foreign debt of $420bn (£237bn) was uppermost in their minds. But no new initiatives were announced, nothing beyond a repetition of the complaint that this cannot go on, and an announcement that the group's finance ministers will meet before the end of the year in Rio de Janeiro to discuss the *problem further.*

The opening statement of the *declaration speaks of the* good news of superpower disarmament – good news for the group in that the resulting cut in arms expenditure "could release an extraordinary mass of resources which could be applied to the creation of a new and more socially just world order."

Cynics might feel uneasy at the hardly hidden hint that the solution to a $420bn debt is to add a little more to the pot.

The group promised a "new dialogue" with industrialised nations, "in the search for a more equable system of international relations." It proposes an "immediate dialogue" with the US on problems of common concern.

These problems relate to what the declaration says is the net transfer of $100bn from the region, in the form of debt repayments, in the last five years.

The group says that "each of our countries has put into practice profound economic reform programmes" but "we have not seen a corresponding *effort on the part of developed* countries." In other words, we have *done our bit* – *now it's* your turn.

The declaration accuses developed countries of protectionism, and international institutions such as the International Monetary Fund – although not named – of providing "inadequate and contradictory" measures, making economic control difficult at an "extremely difficult juncture."

But there are no threats to do anything - apart from holding the Rio conference and the third Group of Eight meeting in Peru next year. Of concrete suggestions for solving the debt crisis, not a whisper. Uruguay's President Sanguinetti is solicited to write to French President François Mitterrand, thanking him for his recent suggestion that an answer to the debt crisis must be found.

On other issues, such as Ecuador's application to join, regional problems with drugs, AIDS or the destruction of the environment, either silence (over Ecuador) or impressive phraseology. All the resolutions for action promise closer economic, communications, cultural, and social co-operation; and those puddings have yet to be swallowed.

Given that three of the group – Argentina, Brazil, and Uruguay – face tough presidential elections next year, and Mexico and Venezuela will soon have new presidents, it is perhaps *not surprising that so little* was achieved.

But perhaps the most important thing was the public testimony that these *historically* hostile countries still prefer to slap rather than stab each other's backs.

Norwegian rightists ahead in poll

By Karen Fossli in Oslo

NORWAY'S right-wing Progress Party, which favours lower taxation, privatisation and tighter immigration controls, has slipped in public support, although it would still gain seats in Parliament if an election were held tomorrow, a new opinion poll indicates.

Support for the Progress Party stood at 17 per cent in October, compared with 24 per cent in June, according to the survey by the Norwegian Gallup Institute, which was conducted for Aftenposten newspaper.

But the rightist group would still see capture 30 seats in Parliament, compared with just *two at present.*

The Labour Party, which has been running a minority Government since 1986, would see *its representation drop to 60* seats from 71, while the num*ber of seats held by the Conser*vatives, the mainstream oppo*sition, would drop to 44 from* 50.

The rise of the Progress Party, led by Mr Carl Hagen, has intensely alarmed traditional political groupings.

Pentagon contract boosts AT&T's computer efforts

By James Buchan in New York

THE efforts by American *Telephone and Telegraph to* establish itself as a contender *in the world computer industry* have received a boost with the *award of* a *$4.5bn (£2.5bn)* contract to supply minicomputers to the Pentagon.

The deal, announced by the *US Air Force at the end of last* week, is one of the largest ever awarded by the US Government.

The contract is worth $929m in its first phase but could be worth $4.5bn over *eight* years.

AT&T's victory over such competitors as International Business Machines, Honeywell and *Lockheed* is seen as a big fillip for the communications giant in its attempt to break into the top tier of the computer industry.

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Mrs Marcos arrives in New York to face fraud charges

MRS IMELDA MARCOS, the wife of deposed Philippine President Ferdinand Marcos, arrived in New York yesterday to prepare for arraignment on fraud and racketeering charges in *federal* court *today, Reuter* reports from New York.

She journeyed from her Hawaii mansion, where she has been in exile with her husband since he was ousted in February 1986, aboard a luxurious Boeing 737 owned by the reclusive tobacco heiress Doris Duke.

Her entourage of 10 people included two nurses, a Catholic priest and a lawyer.

A *US* judge in New York has delayed indefinitely for health *reasons the arraignment of Mr* Marcos on racketeering charges, including embezzling more than $100m from the Philippine treasury to buy New York buildings, but Mrs Marcos was ordered arraigned on Monday on similar charges.

She gave her 71-year-old hus*band, who was in a wheelchair,* a tearful farewell on Saturday at their hillside estate in Honolulu. Aides videotaped the scene.

Mrs Marcos was greeted by about 25 supporters, including two school children who held a sign saying "We love you, Mrs Marcos", when she arrived at Newark International Airport yesterday morning.

She was whisked away by two lawyers in a limousine and arrived amid heavy security at *the plush Waldorf-Astoria*

A spokesman, Arturo Aruiza, said the 59-year-old *Mrs Marcos* would plead not guilty at her arraignment. Her fingerprints and police photographs will be taken after she is formally charged on Monday.

Asked whether she will repeat the New York shopping sprees that once made her famous, *her lawyer,* Mr John Bartko, said lavish parties and *shopping sprees* were *furthest* from her mind.

"Her real concern is that she had not left her husband's side for three years and she is very concerned about his health," he said. "She is going to meet her legal obligations, but I just don't see her having a gay old time in New York."

Since she and her husband left the Philippines in the face of a popular uprising, Mrs Marcos has said only the generosity of friends has enabled her to survive in exile.

Chadli brings supporters into Algiers leadership

By Victor Mallet

PRESIDENT Chadli Bendjedid of Algeria, seeking to win popular backing for his political and economic reforms after this month's riots, sacked two prominent members of the Algerian leadership at the weekend and replaced them with his supporters.

Mr Mohammed Cherif Messaadia, an unpopular figure who controlled the apparatus of the ruling party, the Front de Libération Nationale, was "called to other functions", according to the official Algerian news agency.

Mr Messaadia was replaced as head of the FLN secretariat by Mr Abdelhamid Mehri, a former ambassador to Paris and currently Mr Chadli's representative to Morocco, a sensitive post following the recent resumption of diplomatic relations between the two countries.

President Chadli remains as FLN Secretary General.

Also fired was Gen Medjoub Lakhal Ayat, head of the Délégation Générale de la Prevention et de la Securité, an organisation dealing with military and civilian security matters. He was replaced by Gen Mohammed Betchine, a close army colleague of the president.

Since the riots, in which the Government says 159 people were killed, Mr Chadli has moved swiftly to speed political reforms and loosen the stranglehold of the FLN, still the only legal political party. He has called for greater pluralism and democracy in the FLN but disappointed some Algerians by ruling out an immediate transition to a multi-party system.

Algeria is due to hold two referendums on political reform, the first this Thursday, to give the president a mandate for his policies. The sackings over the weekend are likely to strengthen his hand as he tries to purge hardliners from FLN ranks.

In an unprecedented attack last week, the government newspaper El Moudjahid denounced the party and called it a soporific and sterile institution. At the weekend a group of 18 Algerians, including former guerrillas who fought against the French before independence, took advantage of the new climate of openness and accused the security services of torturing young rioters in recent weeks.

Egypt increases Suez tolls to boost currency earnings

By Tony Walker in Cairo

EGYPT, which is anxious to boost its hard currency earnings amid growing balance of payments problems, has increased Suez Canal tolls by an average of eight per cent from the beginning of next year.

Mr Ezzat Adel, chairman of the Suez Canal Authority, said the new levies would increase canal revenues by about $86.6m (£54.5m) a year. Egypt earned $1.28bn from the canal in 1987-88.

Suez canal revenues are, with those of oil and tourism, among Egypt's main earners of hard currency. Workers' remittances from more than 3m Egyptian expatriates, many of them employed in the Gulf, make up the country's biggest source of foreign exchange.

Mr Adel said it was two years since the last rise. The increased levy matched the rate of inflation in the West, and also took account of an improvement in international maritime activity.

Egypt would retain its special cut rate for long-haul bulk carriers. This was to encourage these ships to use the Suez Canal instead of the longer route around the Cape. Egyptian officials hope that in any case the winding down of the Gulf War will increase commercial traffic through the canal.

Meanwhile, Egypt has commissioned a $1.5m feasibility study, financed by the Arab Fund, on the second stage of the Suez Canal redevelopment.

The estimated cost of deepening and widening the canal to enable it to handle 250,000 deadweight tons (dwt) carriers is $700m.

The first phase, completed in 1980 after the reopening of the canal in 1975, allowed it to accommodate 150,000 dwt vessels and those of 230,000-370,000 dwt in ballast.

Iran and Iraq to resume Gulf peace talks in Geneva

By Our Foreign Staff

IRAN AND Iraq, their armies still only a few paces apart in parts of the Gulf War front line, are due to meet in Geneva today in another attempt to consolidate the fragile ceasefire which has been in place since August.

Mr Javier Pérez de Cuéllar, the UN Secretary General, is expected to spend the best part of this week mediating between Mr Ali Akbar Velayati, the Iranian Foreign Minister, and Mr Tariq Aziz, his Iraqi counterpart.

So far the negotiations have made little headway, although both sides appear to have made conciliatory gestures.

Yesterday, on the eve of the peace talks, Iraq said its 650,000-strong volunteer militia force would stop accepting recruits and might even be demobilised.

"The discharge will be according to a plan which takes into consideration military requirements and political developments," the Iraqi news agency said.

Iraq also freed 25 wounded Iranian prisoners, who were then flown to Tehran by the International Committee of the Red Cross. Each side has now released about 700 disabled prisoners, but 100,000 more prisoners of war are still in captivity.

On Friday Mr Mohammed Jaafar Mahallati, Iran's ambassador the UN, said Iran was prepared to give up the right to search ships in the Gulf for Iraq-bound weaponry, provided this was linked to a withdrawal of troops from the battlefront.

But progress in the peace negotiations is still blocked by Iraq's claim to the entire Shatt al-Arab waterway, the confluence between the Tigris and the Euphrates which is Iraq's main outlet to the sea.

Iraq regards the clearing of the waterway, blocked by stranded ships, mines and silt, as a priority in the talks. Iran, however, wants Iraq first to recognise a 1975 treaty between the two countries which fixes the boundary down the middle of the waterway, known in Iran as the Arvand River.

President Saddam Hussein of Iraq repudiated the accord shortly before invading Iran in 1980.

It will be difficult to arrange a troop withdrawal to internationally recognised boundaries, as required by the UN peace plan in Resolution 598, unless both sides recognise the same boundaries.

● Iranian authorities have executed 20 more dissidents by firing squads or publicly hanging them from mobile cranes in four cities, the main Iranian opposition movement claimed yesterday, AP reports from Nicosia.

The Iraqi-based Radio Mujahed, run by the Mujahedeen Khalq, or People's Holy Warriors, said that three of the victims were women hanged in the city of Zanjan, 180 miles (250-kilometres) west of Tehran in recent days.

Three Mujahedeen members were hanged in the provincial capital of Hamadan in western Iran, the radio - monitored in Nicosia- reported.

Thirteen others were shot by firing squad in Mashhad in northeast Iran and one in the western city of Arak, raising the number of executions carried out there in recent weeks to 50, the radio added.

Memorial sets out to record the Stalinist past

John Lloyd at a moving, chaotic inauguration

IT WAS, said the organisers, "a day for which all rational people in our society have been waiting." The day was Saturday, the occasion was the founding conference of a movement called Memorial.

Memorial's project is to exhume the past: to do for the victims of Stalinist oppression what Jewish and other organisations have done for the holocaust.

Its activists and figureheads include some of the most prominent names in Soviet civil rights struggles and letters: Andrei Sakharov; Alexander Solzhenitsyn, the exiled novelist; Yevgeny Yevtushenko, the poet; Anatoli Rybakov, who wrote "Children of the Arbat", about the Stalin generation.

It should have been moving, and it was, at times. It was also chaotic and occasionally almost farcical, in a way that Russian events often are.

The playing of some music specially composed to commemorate the victims – a section entitled "eternal peace" – was cut off with an anguished electronic yelp from the sound system. It stuttered to a muted halt seconds later, to the distress of the organising committee, crammed on to the stage of the meeting hall in Moscow's House of Cinematographers.

"It's a ghost," shouted a bald, bearded man in the audience, to some grim laughter. Later, a survivor of the camps had virtually to be led from the rostrum after his speech threatened to turn into an endless denunciation of Communist leaders of the time, quoting copiously from transcripts of party meetings.

Many of the speeches seemed halting and ill-prepared: the audience, overwhelmingly Moscow intelligentsia, was restive and argumentative.

Mr Sakharov's appearance was of a piece with the mood. In internal exile in the city of Gorky until 1986, when he was freed through the intercession of Mr Mikhail Gorbachev, the Soviet leader, he has put his huge moral authority behind the twin processes of perestroika and glasnost.

His words were a summation of and an inspiration to the still-burgeoning anti-Stalinist movement here. There was no city or village in the country, he said, that did not show traces of Stalinist crimes and abuses of justice.

The speech was an inspiration in two ways: first, because he put forward the complex and uncomfortable view, long voiced by survivors of the Stalin terror, that the victims had often been accomplices themselves.

Second, he stressed that Stalinism did not end with the death of Stalin in 1953. "The abuse of the law continued under Nikita Khrushchev and Leonid Brezhnev, though on a much smaller scale. The victims of these repressions must be exonerated too," he said.

He made obvious, too, the importance of Mr Gorbachev's protective mantle for movements of this kind – which do not enjoy universal approval in a society which has seen the flowering of nationalistic, neo-Stalinist and even apparently proto-fascist groups.

Mr Sakharov made great play of the fact that Mr Gorbachev had, in a brief conversation with the group's leaders, approved of the project.

Mr Gorbachev's own pronouncements on Stalin have mixed censure with praise. In a speech a year ago, on the occasion of the 70th anniversary of the Bolshevik revolution, he called Stalin "an extremely contradictory personality".

"To remain faithful to historical truth," he said, "we have to see both Stalin's incontestable contribution to the struggle for socialism, to the defence of its gains, and the gross political errors, the abuses committed by him and those around him, for which our people paid a heavy price and which had grave consequences for the life of our society. . . The guilt of Stalin and his immediate entourage before the party and the people for the wholesale repressive measures and acts of lawlessness is enormous and unforgiveable."

Memorial's launch comes on the eve of celebrations of the 71st anniversary of the revolution. For the past few days, night-time traffic in Moscow has been diverted round columns of tanks, rocket-launchers, jeeps, trucks and columns of the Soviet army stamping to keep warm in the sudden cold snap, rehearsing the parade through Red Square of Soviet power: that power which Stalin created, glorified and ultimately saw victorious in the Great Patriotic War.

Contradictory indeed is the Stalin legacy. As Mr Gorbachev provides the political space for painful exhumations by Memorial, for the publication and understanding of a terror more murderous in its body count than the holocaust, there will be those behind him, and below him, and about him, who fear that that space will be filled with forces which could ultimately threaten the nature of Soviet rule itself.

Hezbollah vows suicide attacks against Israel

THE PRO-IRANIAN fundamentalists of Hezbollah, or Party of God, vowed yesterday to send thousands of suicide bombers on new terrorist attacks against Israel, AP reports from Beirut.

As they made their threat, their Syrian-backed foe Nabih Berri accused Hezbollah of kidnapping all foreign hostages in Lebanon, describing Hezbollah as "a Dracula that thrives only on blood."

His scathing attack sharpened fears that the two main militias vying for dominance of the one million Shiites who make up Lebanon's largest religious sect were on a new collision course.

Hezbollah organized a rally dedicated to the memory of a young Shiite Moslem suicide bomber who detonated an explosive-packed car by an Israeli army convoy in south Lebanon 11 days ago, killing eight Israeli soldiers.

Representatives of the Iranian Embassy, Fatah's Revolutionary Council headed by terrorist mastermind Abu-Nidal, the Syrian-backed Popular Front for the Liberation of Palestine-General Command and Lebanese leftist parties attended the rally.

"We have thousands like him," said Sheik Hussein Ghibris, a senior Hezbollah official in a speech at the rally held at a west Beirut movie house. "Let our people in Palestine, in the West Bank and Gaza Strip wait for their arrival."

Sheik Ghibris said Abdallah Atwah, the 20-year-old-Shiite who staged the suicide attack in Israel's self-designated security zone in south Lebanon on Oct. 19 was a "shining torch on the path to martyrdom."

A crowd of around 4,000 people in and around the movie house burst in chants of "Death to America" and "Death to Israel" as he intoned:

"We're holding today a rally to mark his (Atwah's) wedding to martyrdom. It's a collective wedding for him and those who preceded him, those who truckbombed the (American) Marines and the (French) paratroopers" in west Beirut on Oct 23 1983.

The simultaneous suicide bombings killed 241 American servicemen and 58 Frenchmen of an ill-starred multi-national peacekeeping force that had tried to end Lebanon's civil war, now in its 14th year.

Hezbollah had claimed responsibility for Atwah's bombing attack to which Israel responded with a blitz of air attacks on Hezbollah and Palestinian strongholds in Lebanon, killing 36 people and wounding 76.

Mr Berri, who heads the mainstream Amal militia, unleashed his attack on Hezbollah in a mass rally attended by an estimated 25,000 in south Lebanon's market town of Nabatiyeh.

The rally marked the lapse of 40 days after the assassination of Amal's three top commanders in south Lebanon in a gunfire ambush at a Hezbollah-held district in south Beirut.

"They died at the hands of Hezbollah, who wanted to retrieve south Lebanon from Amal to add it to its (foreign) hostages in its slave marketeering," Mr Berri said.

"Hezbollah's command has kidnapped 20 (foreign) hostages and has painted the Shiites as terrorists," Mr Berri said.

Hezbollah has long been believed to be an umbrella for extremist factions involved in kidnappings of foreigners.

The number of hostages has now been reduced to 14 after the release of three Americans, nine Frenchmen and two West Germans in the last three years.

Mr Berri did not explain the figure 20, but Amal sources said he was referring to all foreigners kidnapped since 1984.

Amal cracked down on Hezbollah in a four-day confrontation in south Lebanon in April, during which 62 people were killed and 150 wounded, according to police.

The two rivals clashed in a three-week bloodbath in south Beirut's Shiite slums in May, killing nearly 300 people and wounding 1,000 before Syrian troops moved in to quell the fighting.

Police said the two sides have lately been skirmishing and kidapping each other's partisans in the slums, raising fears of a new confrontation.

Carlucci ends round of talks in Jordan

US SECRETARY of Defence Frank Carlucci ended talks on military co-operation with Jordanian officials yesterday, then flew off for a sunset picnic in the Arabian desert, AP reports from Amman.

Jordan, the first of three stops on Mr Carlucci's Middle East tour, has reduced its reliance on American arms in recent years due to declining US aid and a series of rejected weapons requests.

But an official with the US delegation said that the two days of talks were "warm and cordial" and added that there was interest on both sides in "maintaining a long and close relationship."

The US has long seen Jordan as the essential Arab element in any Arab-Israeli peace treaty. Jordan shares Israel's longest border and ruled the West Bank until Israel captured it in 1967.

US officials once proposed making Jordan's well-trained army a keystone of a regional rapid deployment force – an idea Jordan rejected when the plan drew widespread criticism in the Arab World.

"The secretary wanted to come to Jordan to underscore to all how important we consider our relations with Jordan," the American official said. Mr Carlucci warned in a speech last week that opposition in the US Congress to Arab arms sales has weakened American influence in countries such as Saudi Arabia and Jordan and harmed the sense of security they need to reach peace with Israel.

Jordan turned to the Soviet Union for anti-aircraft missiles and to France and Britain for advanced jet fighter aircraft after American lawmakers rejected a $1.9bn arms package in 1986. A steady squeeze on the US military aid budget also has affected Jordan. It received $26.5m in grants and $1.8m for training this year, down from more than $100m in grants and credits five years ago.

ABITIBI-PRICE

ABITIBI-PRICE INC.

NOTICE OF MEETING OF ALL DEBENTUREHOLDERS OF ABITIBI-PRICE INC.

NOTICE IS HEREBY GIVEN THAT a meeting (the "Meeting") of all holders of debentures (the "Debentureholders") of Abitibi-Price Inc. ("Abitibi-Price") outstanding at the date of the Meeting (being the Series F Debentures, the Series G Debentures, the Series H Debentures, the Series I Debentures, the Series K Debentures and the Series L Debentures (collectively, the "Debentures")) will be held in Commerce Hall, Concourse Level, Commerce Court West, King and Bay Streets, Toronto, Ontario, Canada on December 5, 1988, at 10 o'clock in the forenoon (Toronto time).

This Notice is given pursuant to an indenture dated as of September 15, 1965 (the "Original Indenture"), as supplemented and amended by twenty-three supplemental trust indentures (collectively, the "Trust Indenture") between Abitibi-Price and Montreal Trust Company, as trustee (the "Trustee").

The Trustee has been requested by Abitibi-Price to call the Meeting pursuant to the provisions of the Trust Indenture for the purpose of:

1. Considering, and if thought fit, passing an extraordinary resolution (as defined in the Trust Indenture) of all Debentureholders (the "Extraordinary Resolution"):

(a) to amend and restate the Original Indenture as theretofore amended, the indenture supplemental thereto dated as of March 1, 1975 as theretofore amended (the "Series F Indenture"), the indenture supplemental thereto dated as of October 15, 1975 as theretofore amended (the "Series G Indenture"), the indenture supplemental thereto dated as of December 1, 1979 as theretofore amended (the "Series H Indenture"), the indenture supplemental thereto dated as of November 1, 1983 as theretofore amended (the "Series K Indenture") and the indenture supplemental thereto dated as of August 26, 1987 as theretofore amended (the "Series L Indenture") (collectively, the "Supplemental Indentures"), in order to delete the floating charge, to delete or amend certain positive and restrictive covenants and to add a covenant for the benefit of Debentureholders and to make incidental changes to the Trust Indenture, all as set out in the draft restated Original Indenture as theretofore amended to be dated as of December 19, 1988 (the "Restated Indenture"), the draft restated Series F Indenture (the "Restated First Supplemental Indenture"), the draft restated Series G Indenture (the "Restated Second Supplemental Indenture"), the draft restated Series H Indenture (the "Restated Third Supplemental Indenture"), the draft restated Series K Indenture (the "Restated Fourth Supplemental Indenture") and the draft restated Series L Indenture (the "Restated Fifth Supplemental Indenture") each to be dated as of December 19, 1988 (collectively, the "Restated Supplemental Indentures"):

(b) to sanction any modification, abrogation, alteration, compromise or arrangement of the rights of the Debentureholders against Abitibi-Price or against its undertaking, property and assets, which may be contemplated by, involved in or necessary or desirable to carry out the amendments to the Original Indenture as contemplated by the Restated Indenture and to the Supplemental Indentures as contemplated by the Restated Supplemental Indentures;

(c) to consent to any modification of or change in or omission from or addition to any of the provisions of the Trust Indenture and the Debentures, which may be contemplated by or involved in or necessary or desirable to carry out the amendments to the Original Indenture contemplated by the Restated Indenture and to the Supplemental Indentures as contemplated by the Restated Supplemental Indentures; and

(d) to authorize the Trustee to concur in and execute the Restated Indenture and the Restated Supplemental Indentures in the form of the drafts presented to the Meeting with such changes made in order to cure or correct any ambiguity or defective or inconsistent provisions or clerical omission or mistake or manifest error contained therein as may be approved by the Trustee provided that in the opinion of the Trustee the Debentureholders are in no way prejudiced thereby.

2. Taking such further or other action as may be considered advisable, whether by way of extraordinary resolution or otherwise pursuant to the provisions of the Trust Indenture.

The foregoing statement of the purposes of the Meeting to be held does not purport to specify the terms of any extraordinary resolution to be proposed at the Meeting, but only to specify in general terms the nature of the business to be transacted thereat.

Pursuant to the provisions of the Trust Indenture, the Extraordinary Resolution, if passed at the Meeting or at any adjournment thereof in accordance with the provisions contained in the Trust Indenture, will be binding upon all of the Debentureholders, whether or not such holders are present or represented at the Meeting or at any adjournment thereof.

In addition to the Extraordinary Resolution to be passed by all Debentureholders at the Meeting, the separate approval of each of the Series F Debentures, the Series G Debentures, the Series H Debentures, the Series K Debentures and the Series L Debentures is required. Abitibi-Price is seeking the requisite separate approvals from each of these individual series of Debentures by way of written resolution. Such written approvals of the proposed amendments will be conditional on the passing of the Extraordinary Resolution by the Debentureholders at the Meeting. Accordingly, once the Extraordinary Resolution is passed at the Meeting, all necessary approvals for the entering into of the Restated Indenture and Restated Supplemental Indentures will have been obtained.

Pursuant to the provisions of the Trust Indenture and regulations made thereunder:

(a) holders of registered Debentures may attend in person and vote or may by instrument in writing under their hands appoint any person as proxy to be present and to vote for them at such Meeting and at any adjournment thereof;

(b) holders of unregistered Debentures, being the holders of the Series I Debentures, desiring to be present and vote at the Meeting without producing their bearer debenture certificates may deposit the same with Orion Royal Bank Limited, London, England or other depositary approved by Montreal Trust Company and will receive in exchange voting certificates which will entitle the holder named therein to be present and vote at the Meeting and at any adjournment thereof or to appoint a proxy to represent and vote on behalf of the holder at the Meeting and at any adjournment thereof. Bearer debenture certificates so deposited will be held on deposit until after the Meeting and any adjournment thereof and will then be returned to the depositor on presentation of the receipt therefor;

(c) save as aforesaid, the only persons who shall be recognized at the Meeting or any adjournment thereof as the holders of any Debentures or as entitled to vote at the Meeting or any adjournment thereof shall be the registered Debentureholders or their proxies and the persons who produce bearer debenture certificates or voting certificates or their proxies; and

(d) a proxy need not be a Debentureholder.

Reference is made to the full text of the regulations made under the Trust Indenture for the particulars of the foregoing provisions.

Copies of this Notice, an Information Memorandum explaining the proposed changes and containing the text of the Extraordinary Resolution and a suitable form of proxy and instructions relating thereto are being mailed to all registered holders of Debentures. Notice of the Meeting has been given by publication in the Globe and Mail and the Financial Times. Additional copies of such documents, copies of the Restated Indenture and the Restated Supplemental Indentures, the regulations made by the Trustee under the Trust Indenture and instructions and forms of voting certificates and proxies for the purpose of enabling the Series I Debentureholders to be present and vote at the Meeting in person or by proxy, may be obtained at the following offices:

Montreal Trust Company
15 King Street West
Toronto, Ontario
Canada
M5H 1B4

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels

Orion Royal Bank Limited
71 Queen Victoria Street
London, England
EC4V 4DE

Citibank Luxembourg S.A.
16 Avenue Marie Therese
Luxembourg

The Royal Bank and Trust Company
68 William Street
New York, New York
10005

or will be sent without charge to a Debentureholder upon request by calling collect Montreal Trust Company in Toronto, Canada at (416) 860-5655 or Orion Royal Bank Limited in London, England at 01-489-1177.

DATED at Toronto, Ontario, October 31, 1988.

MONTREAL TRUST COMPANY,
Trustee

OVERSEAS NEWS

Race to carve up Delhi land deal

David Housego on the biggest city-centre scramble in a decade

NEW DELHI, like any world capital, relishes a scandal. Coming to a head is an unseemly scramble to carve up the profits from what is potentially the largest private land development in the city centre in more than a decade.

Contenders for a share in the honey pot are three:

● DCM (Delhi Cloth Mills), the large, diversified North Indian group that has long been ailing as a result of family feuds and financial losses;

● The government and ruling Congress party which sees no reason why DCM should make large windfall gains on urban renewal – particularly in an election year when the government's and party's needs are so great;

● The 5,000 workers at the DCM textile mill in the centre of Old Delhi. In an unprecedented deal, DCM has offered the workers redundancy payments equivalent to six years' salary each, to win their support for the closure of the plant.

The annual interest alone on the sum they can expect to get will for most of them exceed their yearly wages. Company officials now say: "There is now not a single person who wants to go on working. They want to take the golden handshake and go away."

At stake as well in the conflict is the independence of a judiciary that has been called in to arbitrate in a case where the administration would sorely like to change the rules.

The field of battle between these contending parties is the 63-acre site that DCM owns amid the crowded streets of Old Delhi which makes it the largest private landowner in the capital.

On that site, DCM has a 100-year-old spinning, weaving and dyeing mill that has long helped contribute to Delhi's pollution through black fumes and toxic waste.

Because land was cheap when the plant was put up, DCM owns beside it a large workers' housing estate.

A walk round the factory quickly shows why it has made cumulative losses of Rs 500m in the last 10 years. Rows of looms in dark sheds lie rusting and gathering dust. There has been virtually no new equipment in 26 years. The factory runs today at 20 per cent capacity. Company officials say that workers choose when they come and go.

DCM, which has interests that spread from textiles to data processing, fertilisers and vegetable oils, has not invested in the mill because a master-plan drawn up for Delhi in 1962 ruled that old, pollution-heavy industries should move from the centre of the city.

By the early 1980s – such is the pace at which events have moved – DCM had drawn up a scheme for redeveloping its site to provide for multi-storeyed factory space, and commercial and residential property.

DCM's calculation today is that they will realise Rs 2bn from the sale of the units. From this they will have to pay Rs 700m in compensation to the workers as well as numerous other charges.

In an unprecedented move, the company has offered workers redundancy payments equal to six years' wages each, to win their support for closure of the plant

With sky-rocketing land prices in Delhi, the government reckons it could be worth three or five times as much.

In 1983, DCM got approval from the Delhi Development Authority for its plans as being in line with the Delhi master-plan. Trouble then began. First the Labour Department refused permission for the closure of the mill. Then the Delhi administration withdrew its approval on the grounds that the plans were not in the public interest.

DCM took both issues to the High Court and won. The Court urged more generous compensation for the labour force. The terms now on offer will give workers five times more than their legal entitlement. The catch is that they are tied to DCM's redevelopment scheme being implemented.

On the second issue, the court ruled that the Delhi administration had no right to withdraw its approval and that it should notify DCM accordingly. The Delhi authorities have sought injunctions to delay this – the third (and probably last) of which expires on Monday.

The current state of play thus finds an unusual line-up for India of workers and management in coalition against the government. Twelve out of 13 unions at the plant support the agreement and 99 per cent of the workers are individually said to have given it their support.

The workers are clear in their own minds as to why the government is blocking the deal. "The Congress party think it is a gold mine," says one. "They want a cut out of it." Though company officials refuse to be quoted on such sensitive issues, it is clear that their own opinion is not much different.

For DCM the windfall gains from the real estate development would provide a much-needed cash injection. Only 20 years ago, the group was one of the leading industrial houses in India but has slowly lost rank in the corporate hierarchy as a result of feuds within the Shriram family that has run it.

The group now looks as though it will be split between three cousins. But it is by no means clear who would benefit most from the Delhi land deal.

Burma backs private enterprise

BURMA'S military rulers, who are dismantling a 26-year-old socialist system, announced new steps at the weekend to encourage private enterprise, Reuter reports from Bangkok.

But they made clear the army, which seized power on September 18, would maintain a tight grip on the people while preparing for promised general elections.

Rangoon Radio, monitored in Bangkok, said four laws restricting private and co-operative activities in exporting and domestic trade, some dating back to 1963, were being repealed.

It said an office had opened in the central Merchant Street for private and co-operative traders to register.

Under a policy announced in July, the government is shedding its monopoly of trade, except in teak, gems, pearls and petroleum products.

The military council has closed down the Burma Socialist Programme Party (BSPP), the sole political force that controlled all aspects of Burmese society after the 1962 coup, and allowed other parties to form.

Collapse of the socialist economy, including the vital distribution of rice, was the main cause of a popular uprising against Ne Win's repressive government this year in which troops and police killed thousands of people.

The government tried to free the domestic rice trade last year, but Western diplomats said half-measures only made matters worse.

Sit-in farmers clash with police

By K.K. Sharma in New Delhi

SEVERAL thousand farmers staging a sit-in near the central government offices in New Delhi clashed with police over the weekend.

At least nine farmers and a dozen policemen were injured in clashes yesterday, as demonstrators resisted attempts to break up the sit-in which they threaten to continue indefinitely.

The farmers, under the leadership of the charismatic Mr Mahendra Singh Tikait, the non-political president of the Indian Farmers Union, have camped out to press their demands for a better deal for agriculturists, notably higher prices for their produce.

Most of them come from the politically volatile north Indian state of Uttar Pradesh. Never before have such large numbers of people organised such a long demonstration in the heart of New Delhi.

Talks between ministers and farmers' representatives have so far failed to yield a solution and it looks as though the demonstration will continue for several more days. There could be more violence and trouble since the farmers are becoming increasingly restive.

The ruling Congress-I party was to have held a huge rally on the boat club lawns today where the farmers are encamped, for the fourth anniversary of the assassination of Mrs Indira Gandhi, the former Prime Minister.

Such a rally would inevitably have led to violence because of the provocation offered by the presence of the agitating farmers. The Congress-I has therefore decided to shift the venue of its rally to the historic Red Fort, at least six miles away.

S Korea groups boost image

By Maggie Ford in Seoul

PRIVATE-sector companies in South Korea have launched a campaign to limit state interference in the economy and to improve their public image.

The campaign follows allegations in the National Assembly this month of secret financial favours given to companies, and of substantial donations made by them during the previous regime of President Chun Doo Hwan.

The allegations, which implicated public officials as well as business leaders, included suggestions of improper takeovers, illegal land transactions and a business development scheme dominated by political favouritism.

Business leaders have responded by issuing a strong challenge to the present Government of President Roh Tae Woo to end the alleged practices which they say have hurt industry and damaged its reputation.

Mr Chung Ju Yung, honorary chairman and founder of the Hyundai group, said last week that the Chun Government, though professing support for private enterprise, had totally controlled the economy and recklessly realigned industry in the early 1980s.

As a result, public trust in big business groups had dissipated. He urged the government to "privatise the economy" so it could be run on free market principles.

Mr Koo Cha Kyung, head of the Federation of Korean Industry (FKI), and chairman of the Lucky GoldStar group, said political donations should be public knowledge in future.

"Voluntary" donations by big business during the Chun era appear to have amounted to hundreds of millions of dollars. Evidence to the National Assembly this month has revealed payments totalling more than $200m allegedly made to several foundations and other groups controlled by the Chuns.

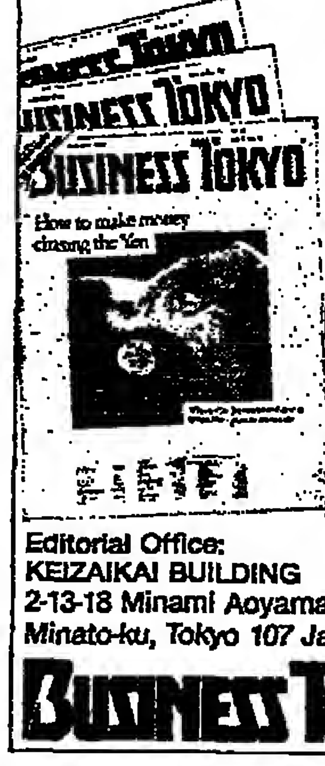
An FKI report last year estimated that if contributions were dropped, companies could pay an across-the-board wage rise of 6 per cent to their workers.

Official election contributions since 1982 amounted to $78m, none of which, it was said, was received by the three opposition parties who now hold a majority of seats in the National Assembly.

Big business groups are clearly angered by the public perception that they have connived with the previous government in exploiting their workers and the public at large in search of profits.

HOW TO MAKE MONEY CHASING THE YEN

November 1988 Issue



Where the Japanese are going
What they plan to invest in

Editorial Office:
KEIZAIKAI BUILDING
2-13-18 Minami Aoyama,
Minato-ku, Tokyo 107 Japan

BUSINESS TOKYO

The mighty yen is on the move. In New York and London, Japanese investors are snapping up office buildings, art collections and entire companies. Across Asia, however, they are putting their money into production, building hundreds of new factories that will churn out the TVs, textiles and toys that are now too expensive to make at home. This year, the hot ticket is Thailand. More than $6 billion in direct foreign investment—nearly half from Japan—in the first six months alone. What does it mean? Read Business Tokyo to find out where money is to be made chasing the yen into the world's fastest growing economies.

New Issue
October 28, 1988

This announcement appears as a matter of record only.

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OVERSEAS NEWS

Eta releases tycoon after 249 days

By Peter Bruce in Madrid

ONE OF Western Europe's longest political kidnappings ended early yesterday when the Basque separatist movement Eta released a Spanish property tycoon, Mr Emiliano Revilla, near his Madrid home after holding him for 249 days.

Eta is thought to have been paid a ransom of some Ptas 1.2bn (£5.7m) by Mr Revilla's family, who failed twice earlier this year to pass ransom on to the kidnappers. On both occasions the Spanish and French authorities successfully stopped the payments being made and Basque couriers carrying the cash – some Ptas 825m – were arrested.

The Madrid Government welcomed the release yesterday but insisted that it remained policy not to pay ransom to kidnappers. The family's vain efforts to pay irritated the Government. The Interior Ministry and the police proved incapable of finding the missing millionaire despite intensive searches around Madrid for the past nine months.

Two weeks ago, however, the Revilla family said it had finally complied with the kidnapper's demands. Just hours before Mr Revilla was released, Mr Jose Luis Corcuera, Spain's Interior Minister, said he had no idea if the money had actually reached Eta. "I think not," he added, "nevertheless, when the family say they have met all the demands, I begin to have my doubts."

Mr Revilla, 60, who made his fortune as a Spain's "Sausage King", sold his meat processing group Chorizos Revilla to Unilever last year and began to invest heavily in the booming Spanish property market. He was the 47th Spanish businessman kidnapped by Eta in the past 15 years.

He was released in the grounds of a clinic near his Madrid apartment early yesterday. A young journalist spotted him about to enter his building.

She was the first person to speak to him, winning herself a scoop. His family said later he was well and had lost only a few kilogrammes in weight. Mr Revilla said he had the impression that he had been held close to Madrid for all of his captivity.

The end of the kidnapping leaves the Government with a number of problems, the chief of which is whether, or how, to renew contacts with the Eta leadership in exile in Algeria.

Talks broken off and started again last February were quickly broken off again by Madrid after Mr Revilla's kidnapping on February 24.

Since then, Eta terrorists have killed at least 12 people.

SHIPPING REPORT

Tanker rates slip after start on high note

By Kevin Brown, Transport Correspondent

THE tanker market started on a high note last week after it became clear that charterers had fixed ships with capacity of up to 4m deadweight tonnes for exports of Saudi crude.

However, rates slipped slightly as the week passed, and brokers said owners were accepting Worldscale 47.5 for 245,000 tons from the Middle East to the West.

Elsewhere, there were a number of deals from Nigerian and other West African loading ports for vessels of around 125,000 to 130,000 tons, but rates remained stable at around Worldscale 60.

Brokers said rates also remained steady at around Worldscale 87 for the short cross-Mediterranean trip for ships of around 80,000 tons.

In the dry cargo market, brokers reported a flurry of activity in the Atlantic Panamax and Cape trades.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1980 = 100)

	Sept.'88	Aug.'88	July '88	Sept '87	% change over previous year
UK	162.2	161.4	159.6	153.2	+5.9
USA	144.9	144.4	143.8	139.1	+4.2
Japan	117.0	116.0	115.7	116.2	+0.7
Italy	223.6	222.5	221.6	212.9	+5.0
Belgium	147.1	146.9	146.6	145.3	+1.2
	Aug.'88	July '88	June '88	Sept '87	
W. Germany	122.6	122.5	122.6	121.2	+1.2
Netherlands	123.9	123.5	123.3	122.4	+1.2
France	172.7	172.2	171.6	168.0	+2.8

Source: (except US) Eurostat.

A bumpy ride over Europe's traditions

Nick Garnett looks at problems in standardising specifications for mobile construction machinery

WEST Germany's stringent safety regulations look like becoming one of the most difficult and contentious issues in the process of standardising specifications for mobile construction machinery ahead of 1992 and the single European market.

The machinery at stake is the category known as on-and-off-road vehicles – construction equipment which can be driven on the highway.

The debate illustrates the problems the single market faces in those industry sectors that require standardisation of safety requirements.

At present every European country has its own special standards for earthmoving and construction machinery.

In France, for example, many types of equipment, including wheel loaders, dump trucks and motor graders used in road building must have their air reservoirs – part of the air brake system – verified by a French inspector.

"This tends to force you to use French equipment," says one machinery maker. France also requires wheel and track loaders to have a mechanism by which operating controls return to neutral when the operator's hand is removed.

The UK requires a special check valve on excavators and backhoes to assist in holding steady a load on the lifting arms of these machines.

Italy is not so fussy – but authorisation for road use of backhoes, wheel loaders, wheel excavators and motor graders requires a special package of design drawings from the manufacturer.

West German requirements, however, make the others pale into insignificance. The extra difficulty in West Germany arises largely because the Germans make little distinction between cars, trucks and on-and-off-the-road industrial machinery. If it can be driven on a road, it must conform to rigid safety standards.

West German requirements make the others pale into insignificance. The difficulty arises because the Germans make little distinction between cars, trucks, and on-and-off-the-road industrial machinery

An idea of how stringent West German standards are can be gathered by a visit to the plant in Leicester, England, run by Caterpillar, the world's largest construction machinery maker.

The plant assembles backhoe loaders (tractor-type vehicles with a bucket in front and a digger at the back). Caterpillar makes no complaint about German requirements. But Leicester's output destined for West Germany is markedly different from that aimed at other European markets.

The differences create special problems for Cat and other machinery makers:

- All machines for the German market are required to have a separate brake with an anti-drive-through mechanism attached to the rear axle.
- The operating valve for the backhoe part of the machine is also different.

To ensure proper locking, the Germans say the valve must not be pressurised when the equipment is moving. A spool has to be inserted in the valve for machines destined for West Germany.

- Steering systems also require a valve positioned under the steering wheel. This is to ensure that if there is a failure in the hydraulics, the system automatically gives priority to the steering mechanism.
- The Germans require a travel lock or bolt on the cylinder lifting the front bucket to keep the bucket a minimum distance from the ground when the vehicle is travelling. A locking bar is also required between the bucket linkage to stop the bucket tilting forward.
- West Germany requires larger wing mirrors than the rest of Europe. It is the only EC country where a flashing warning beacon on a machine is illegal. (In Germany these are reserved for emergency vehicles).

Such standards raise some complex costing issues for equipment suppliers selling in a worldwide market. Just one of the German regulations listed above – the need for a separate brake and anti-drive-through mechanism – requires seven new parts.

1992 THE EUROPEAN MARKET

The designing and processing of those parts is "non-economic, non-productive cost," says Caterpillar.

The company calculates that the extra "visible" costs of producing a backhoe loader specifically for the German market is about $2,000 (£1,136) a vehicle. The sale cost of such a vehicle in the UK is about £23,000 ($39,500). Similar extra costs apply for other types of machinery.

Austria and, to some extent, Switzerland share the German requirements, thus creating a grouping in central Europe keen to preserve specifications which are generally higher than anywhere else in Europe.

If many of the German requirements are incorporated in new, European-wide standards for construction machinery, Cat will have to decide how this will affect its products for the North American market.

Cat's products already include specifications up to and above international standards.

But if there are to be higher European-wide specifications, does the company then include those standards in equipment for the North American market which does not require them?

Will it be cheaper to make one set of models with a standard specification for the whole world or make separate models with a lower specification for certain markets?

A draft directive for mobile machinery is due to be proposed to the European Commission before the end of the year.

The Committee for European Construction Equipment has told the drafting committee that this should be a very general directive, leaving detailed negotiations on standards, model-by-model, to later negotiations.

Many European earthmoving machinery makers do not want Europe to adopt tougher standards than elsewhere in the world. Such a decision might make it more difficult for them to compete in export markets outside the European Community.

So it is unclear yet how many of – or even if – the tougher German standards will be absorbed into new Europe-wide specifications.

Even if standardised safety requirements are agreed, the makers cannot count on making the same product for every country in Europe.

Tradition and the powerful influence of domestic producers have ensured that the machinery used in each country has its own national characteristics.

The machinery makers believe these historic differences will continue long after 1992.

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NOTICE IS HEREBY GIVEN, pursuant to the Terms and Conditions of the captioned issues, that US $ 1 000 000 principal amount of Series A Notes have been drawn for redemption at 101% of their principal amount.

The serial numbers of the 1 000 Series A Notes of US $ 1 000 each, drawn for redemption and representing US $ 1 000 000 principal amount, are as follows:

[illegible]

The Notes drawn for redemption will become due and payable on December 1, 1988 together with accrued interest for the period from February 13, 1988 to December 1, 1988. On and after December 1, 1988 the Series A Notes so redeemed shall cease to bear interest.

As of this date, the outstanding principal amounts are:

Series A Notes: US $ 3 000 000.-
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Zurich, October 25, 1988

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UK NEWS

DTI may alter method for figures on computing

By Terry Dodsworth, Industrial Editor

CHANGES to methods of calculating the performance of the computing services industry are being considered by the Department of Trade and Industry because of fears that the present system leads to an understatement of the output index.

Proposals to revise the current methods were revealed in a DTI report on the latest figures for the sector, which showed a sharp slowing in growth last year. There have been frequent criticisms of the Government's figures by the industry, which also compiles its own statistics.

According to the report, industry output rose by only 5 per cent in real terms in 1987 compared with an annual average growth rate of 18 per cent over the 1978 to 1986 period.

Almost all the measures of progress in the industry, which covers the sale of computer bureau activities, software, hardware maintenance and other professional services, showed a slowing from previous years.

Exports, as measured by billings to foreign clients, fell by £5m on the previous year to a total of £108m, while employment increased by 3 per cent, compared with an average increase of 8 per cent in previous years. The combination of slower-than-usual expansion in employment and relatively slower growth in total billings resulted in an increase of just 8 per cent in billings per head to £43,500.

Total billings rose by 11 per cent in 1987 to £1.72bn against £1.55bn in 1986. The largest increase of 17 per cent was for software products.

The DTI warns that the figures, compiled from answers provided by a voluntary panel of 220 contributors, do not provide a comprehensive picture of activity in the industry.

Oil and gas reserves 'are larger than predicted'

By Max Wilkinson, Resources Editor

THE UK's oil and gas reserves are greater than was thought six months ago and the cost of recovering them is decreasing, says County NatWest WoodMac in its latest North Sea Report.

Its estimate of total reserves in oilfields already developed or committed have risen by 560m barrels since the last survey in March. This is twice the size of the estimated oil reserves in the BP's Miller field, which was recently approved for development by the Government and is the largest field to be developed for six years.

The increase in estimated reserves reflects oil companies' improving recovery techniques and greater optimism about the effectiveness of extending projects.

The increase represents a rise of 3.8 per cent on previous estimates of total reserves in the UK sector of the North Sea and increases by 8.5 per cent the estimate of reserves remaining to be produced.

Perhaps the most significant prediction is that in spite of lower oil prices, production from existing North Sea oil and gas installations will remain at a much higher level than previously expected well into the next decade.

The report predicts that in 1993 oil production from existing oilfields will be 170,000 barrels a day or 12 per cent higher than previously forecast.

Earlier projections by County NatWest WoodMac and most other analysts, suggested that North Sea oil production would start to fall quite rapidly from next year, declining from present output of 2.2m b/d to about half that level by 1995.

The latest estimates, however, suggest that output could be maintained at about 2.1m b/d until 1995, before the decline sets in.

The report gives a similar picture for UK gas production, showing that potential output could rise by perhaps 50 per cent from present levels by 1995. The upgrading of reserves since the last survey has added some 379bn cu ft to reserves, adding about 1 per cent to total estimated reserves.

At the same time the report says that capital and operating costs in the North Sea have been falling partly as a result of the pressure from a weak oil price. Operating costs are now believed to be about £2.08 per barrel on average which is 5 per cent lower than the figure in March 1988.

The report says that world oil prices would have to fall well below their level of about $7 per barrel before many North Sea oilfields became unprofitable to operate.

Polls report Labour lead in Govan

By James Buxton, Scottish Correspondent

Jim Sillars: well-known nationalist candidate

LABOUR has a substantial lead in the Govan by-election in Glasgow with the Scottish National Party in second place, according to two opinion polls published yesterday.

The SNP has said it believes it can win the by-election on November 10, caused by the resignation of Mr Bruce Millan, the Labour MP who is to become an EC Commissioner in Brussels. It has put up a strong candidate in Mr Jim Sillars, a well-known political figure in Scotland. Labour's candidate is Mr Bob Gillespie, a trade union official.

However, two opinion polls – one by MORI for the newspaper Scotland on Sunday and another by Fraser Grigor for the Sunday Times – give Labour 59 and 63 per cent of the vote respectively, discounting people who said they were undecided.

In the 1987 General Election, Labour took almost 65 per cent of the vote. Both opinion polls give the SNP about 23 per cent, considerably more than the 10 per cent the party won in 1987.

Both polls put the Conservatives in third place, with MORI showing them at 13 per cent and the Sunday Times at just under 10 per cent.

Nuclear insurance 'to continue'

By David Green

THE GOVERNMENT is likely to continue to provide a large part of insurance cover for nuclear power stations under proposals to privatise the electricity supply industry.

This was made clear by Mr Christopher Wilcock, a Department of Energy official, during three days of cross-examination last week at the public inquiry into plans to build Britain's second pressurised water reactor nuclear plant at Hinkley Point, Somerset.

Objectors challenged Mr Wilcock, an under-secretary and head of one of the department's electricity divisions, on what they suggested was unfair commercial protection for the nuclear industry under the privatisation proposals.

Under current legislation the Central Electricity Generating Board has public compensation liability of up to £20m for each nuclear site and a further £210m is available via the International Monetary Fund.

Mr Wilcock said under present arrangements the Government would decide whether it wanted to draw on the fund, but it would have to ask for parliamentary approval.

He said he understood there would be no change in the position under privatisation.

Mr Wilcock said the department did not agree with the Friends of the Earth environment group that the insurance arrangements represented a hidden subsidy for the nuclear industry.

Objectors quoted a report from the House of Commons Energy Committee expressing concern about the "uneven" treatment proposed for coal and nuclear energy.

The white paper on privatisation says a minimum proportion of non-fossil fuel generated electricity will have to be bought by the distribution companies.

Mr Wilcock said the view of the Energy Committee should not be mistaken for the view of parliament.

He said the Government was expected to reply to the committee's criticism before it published the privatisation bill later this year.

Objectors expressed their frustration at having to cross-examine Mr Wilcock before the bill's publication.

They said there was too much uncertainty surrounding the proposals to complete any useful economic analysis of the Hinkley Point proposals.

Retailers no longer so ecstatic about Acid House

By Alice Rawsthorn

NORMALLY there is nothing, but nothing, that the fashion industry likes better than a successful teenage trend. But, as the British industry has discovered with the current craze for "Acid House" fashion, even the most successful of trends can sometimes turn sour.

The Acid House craze for clothes emblazoned with "Smiley" – smiling face – symbols has become increasingly popular this autumn. In the last month or so the large retail groups that dominate the teenage fashion market have benefited from booming sales of Smiley merchandise.

But some retailers are now withdrawing their Smiley merchandise. Top Shop, a subsidiary of the Burton Group, has already done so. Chelsea Girl, one of the largest privately-owned fashion chains, is said to be in the process of doing so. But it is "too embarrassed" to talk about Acid House.

The reason for its embarrassment is the part played by the drug, Ecstasy, in the Acid House phenomenon. In recent weeks the popular press has been packed with "exposés" about Ecstasy. The retailers have rushed to disassociate themselves from a drugs-related craze.

The British press carried strident reports of psychedelic dancing at Acid House parties in derelict warehouses and Ecstasy, or Methylenedioxy-Methamphetamine, the illegal drug that the party-goers took.

The reports of dancing and drug-taking could scarcely have been better designed to popularise Acid House. The craze spread from London to other cities. This autumn Acid House records – such as "We Call it Acieed" by D. Mob and "Ecstasy" by Adrenalin M.O.D. – appeared in the pop charts.

As Acid House became more popular the retailers realised that there was a growing demand for Smiley merchandise. Fashion companies, such as Pink Soda and Yakit Rabit, which had sold Smiley T-shirts, badges and bandanas to small shops since the summer were suddenly inundated with orders from the multiple groups.

A fortnight ago the Sun, the most vociferous of the British popular papers, ran an article entitled "The evil of Ecstasy: danger drug that is sweeping discos".

Many retailers have ignored the publicity. Sears still sells Smiley merchandise in its Miss Selfridge shops. It maintains that consumers see the smiling face as a "nice image," and not as a symbol for drugs. But Burton says that it had decided to ban Smiley symbols – before the Sun article appeared – because of the association with Ecstasy.

The Burton ban has created yet more publicity. So far the Ecstasy exposés have backfired. The companies still involved with Acid House say that, thanks to the fuss and furore, Smiley merchandise is even more popular than before.

Landesbank Stuttgart

NOTICE OF ADJOURNED MEETING
of the holders of
Landesbank Stuttgart Girozentrale
London Branch
A$30,000,000 14 per cent. Notes due 1991

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned notes (the "Notes") convened by the London branch (the "Issuer") of Landesbank Stuttgart Girozentrale (the "Bank") (previously known as Wuerttembergische Kommunale Landesbank Girozentrale) for Tuesday, 25th October, 1988 by the Notice published in the Financial Times and the Luxemburger Wort on 3rd October, 1988 was adjourned through lack of quorum and that the adjourned Meeting of the Noteholders will be held at the offices of Hambros Bank Limited at 41 Tower Hill, London EC3N 4HA on 11th November, 1988 at 10.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 2nd October, 1986 made between the Issuer, Hambros Bank Limited (the "Fiscal Agent") and others relating to the Notes.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$30,000,000 14 per cent. Notes due 1991 (the "Notes") of the London branch (the "Issuer") of Landesbank Stuttgart Girozentrale (the "Bank" previously known as Wuerttembergische Kommunale Landesbank Girozentrale) issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 2nd October, 1986 made between the Issuer, Hambros Bank Limited as Fiscal Agent (the "Fiscal Agent") and others hereby:

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and in the Second Schedule to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Issuer and dated 3rd October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof for the purpose of identification;
(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Issuer and the Bank involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and
(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

QUORUM

The quorum required at the adjourned Meeting is two or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes so held or represented by them.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement may be inspected and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT: Hambros Bank Limited, 41 Tower Hill, London EC3N 4HA.

PAYING AGENTS: Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg; Morgan Guaranty Trust Company of New York, Avenue des Arts, 35, B-1040 Brussels.

Issued by Landesbank Stuttgart Girozentrale through its London Branch which has applied to The Securities Association and is interim authorised under the Financial Services Act 1986.

Dated 31st October, 1988.

Landesbank Stuttgart

NOTICE OF ADJOURNED MEETING
of the holders of
Landesbank Stuttgart Girozentrale
London Branch
A$35,000,000 14 per cent. Notes due 1991

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned notes (the "Notes") convened by the London branch (the "Issuer") of Landesbank Stuttgart Girozentrale (the "Bank") (previously known as Wuerttembergische Kommunale Landesbank Girozentrale) for Tuesday, 25th October, 1988 by the Notice published in the Financial Times and the Luxemburger Wort on 3rd October, 1988 was adjourned through lack of quorum and that the adjourned Meeting of the Noteholders will be held at the offices of Hambros Bank Limited at 41 Tower Hill, London EC3N 4HA on 11th November, 1988 at 10.30 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 19th December, 1986 made between the Issuer, Hambros Bank Limited (the "Fiscal Agent") and others relating to the Notes.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$35,000,000 14 per cent. Notes due 1991 (the "Notes") of the London branch (the "Issuer") of Landesbank Stuttgart Girozentrale (the "Bank" previously known as Wuerttembergische Kommunale Landesbank Girozentrale) issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 19th December, 1986 made between the Issuer, Hambros Bank Limited as Fiscal Agent (the "Fiscal Agent") and others hereby:

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and in the Second Schedule to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Issuer and dated 3rd October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof for the purpose of identification;
(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Issuer and the Bank involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and
(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

QUORUM

The quorum required at the adjourned Meeting is two or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes so held or represented by them.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement may be inspected and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT: Hambros Bank Limited, 41 Tower Hill, London EC3N 4HA.

PAYING AGENTS: Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg; Morgan Guaranty Trust Company of New York, Avenue des Arts, 35, B-1040 Brussels.

Issued by Landesbank Stuttgart Girozentrale through its London Branch which has applied to The Securities Association and is interim authorised under the Financial Services Act 1986.

Dated 31st October, 1988.

Landesbank Stuttgart

NOTICE OF ADJOURNED MEETING
of the holders of
Landesbank Stuttgart Girozentrale
London Branch
A$50,000,000 13¾ per cent. Notes due 1992

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned notes (the "Notes") convened by the London branch (the "Issuer") of Landesbank Stuttgart Girozentrale (the "Bank") (previously known as Wuerttembergische Kommunale Landesbank Girozentrale) for Tuesday, 25th October, 1988 by the Notice published in the Financial Times and the Luxemburger Wort on 3rd October, 1988 was adjourned through lack of quorum and that the adjourned Meeting of the Noteholders will be held at the offices of Hambros Bank Limited at 41 Tower Hill, London EC3N 4HA on 11th November, 1988 at 11.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 2nd July, 1987 made between the Issuer, Kredietbank S.A. Luxembourgeoise (the "Fiscal Agent") and others relating to the Notes, as amended.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$50,000,000 13¾ per cent. Notes due 1992 (the "Notes") of the London branch (the "Issuer") of Landesbank Stuttgart Girozentrale (the "Bank" previously known as Wuerttembergische Kommunale Landesbank Girozentrale) issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 2nd July, 1987 made between the Issuer, Kredietbank S.A. Luxembourgeoise as Fiscal Agent (the "Fiscal Agent") and others, as amended, hereby:

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and in the Second Schedule to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Issuer and dated 3rd October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof for the purpose of identification;
(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Issuer and the Bank involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and
(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

QUORUM

The quorum required at the adjourned Meeting is two or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes so held or represented by them.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement may be inspected and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT: Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg.

PAYING AGENTS: ANZ Merchant Bank Limited, 65 Holborn Viaduct, London EC1A 2EV; Morgan Guaranty Trust Company of New York, Avenue des Arts, 35, B-1040 Brussels.

Issued by Landesbank Stuttgart Girozentrale through its London Branch which has applied to The Securities Association and is interim authorised under the Financial Services Act 1986.

Dated 31st October, 1988.

BADISCHE KOMMUNALE LANDESBANK GIROZENTRALE

NOTICE OF ADJOURNED MEETING
of the holders of
Badische Kommunale Landesbank Girozentrale
A$35,000,000 14¼ per cent. Notes due 1991

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned notes (the "Notes") convened by Badische Kommunale Landesbank Girozentrale (the "Bank") for Tuesday, 25th October, 1988 by the Notice published on 3rd October, 1988 in the Financial Times and the Luxemburger Wort and on 1st October, 1988 in the Staatsanzeiger was adjourned through lack of quorum and that the adjourned Meeting of the Noteholders will be held at the offices of Hambros Bank Limited at 41 Tower Hill, London EC3N 4HA on 11th November, 1988 at 11.30 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 10th October, 1986 made between the Bank, Kredietbank S.A. Luxembourgeoise (the "Fiscal Agent") and others relating to the Notes.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$35,000,000 14¼ per cent. Notes due 1991 (the "Notes") of Badische Kommunale Landesbank Girozentrale (the "Bank") issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 10th October, 1986 made between the Bank and Kredietbank S.A. Luxembourgeoise as Fiscal Agent (the "Fiscal Agent") and others hereby:

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and in the First Schedule to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Bank and dated 3rd October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof for the purpose of identification;
(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Bank involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and
(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

QUORUM

The quorum required at the adjourned Meeting is two or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes held or represented by them.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement may be inspected, and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT: Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg.

PAYING AGENTS: ANZ Merchant Bank Limited, 65 Holborn Viaduct, London EC1A 2EU. Badische Kommunale Landesbank Girozentrale, Augustaanlage 33, D-6800 Mannheim. Kredietbank N.V., Arenbergstraat 7, B-1000 Brussels. Swiss Bank Corporation, Aeschenvorstadt 1, CH-4002 Basle.

Issued by Badische Kommunale Landesbank Girozentrale through its London Branch which has applied to The Securities Association and is interim authorised under the Financial Services Act 1986.

Dated 31st October, 1988.

BADISCHE KOMMUNALE LANDESBANK GIROZENTRALE

NOTICE OF ADJOURNED MEETING
of the holders of
Badische Kommunale Landesbank Girozentrale
A$30,000,000 14¾ per cent. Notes due 1992

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned notes (the "Notes") convened by Badische Kommunale Landesbank Girozentrale (the "Bank") for Tuesday, 25th October, 1988 by the Notice published on 3rd October, 1988 in the Financial Times and the Luxemburger Wort and on 1st October, 1988 in the Staatsanzeiger was adjourned through lack of quorum and that the adjourned Meeting of the Noteholders will be held at the offices of Hambros Bank Limited at 41 Tower Hill, London EC3N 4HA on 11th November, 1988 at 12 noon (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 23rd April, 1987 made between the Bank, Kredietbank S.A. Luxembourgeoise (the "Fiscal Agent") and others relating to the Notes.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$30,000,000 14¾ per cent. Notes due 1992 (the "Notes") of Badische Kommunale Landesbank Girozentrale (the "Bank") issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 23rd April, 1987 made between the Bank and Kredietbank S.A. Luxembourgeoise as Fiscal Agent (the "Fiscal Agent") and others hereby:

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and in the First Schedule to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Bank and dated 3rd October, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof for the purpose of identification;
(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Bank involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and
(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

QUORUM

The quorum required at the adjourned Meeting is two or more persons present in person and holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes held or represented by them.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement may be inspected, and copies of the Explanatory Statement, voting certificates and other documents referred to above may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT: Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg.

PAYING AGENTS: ANZ Merchant Bank Limited, 65 Holborn Viaduct, London EC1A 2EU. Badische Kommunale Landesbank Girozentrale, Augustaanlage 33, D-6800 Mannheim. Kredietbank N.V., Arenbergstraat 7, B-1000 Brussels. Swiss Bank Corporation, Aeschenvorstadt 1, CH-4002 Basle.

Issued by Badische Kommunale Landesbank Girozentrale through its London Branch which has applied to The Securities Association and is interim authorised under the Financial Services Act 1986.

Dated 31st October, 1988.

Autumn Statement to use new model of economy

Simon Holberton, Economics Staff

THE TREASURY has used its new model of the UK economy for the forecasts contained in the Autumn Statement, expected tomorrow, but economists will have to wait for a month or more before the model is publicly available.

The model, known informally as the Slim Model, is about half the size of the Treasury's old model of the British economy.

It was first used for the Treasury's internal summer forecast of the economy and will be sent to Warwick University in a month or so.

The Treasury said the new model was more up-to-date than the old version and that there should be more clarity to the forecasts it generates. It is quicker to manipulate and requires less personnel to operate, it said.

The model retains many of the forecasting properties of the old version and produces similar results to the old model when "shocked" with changes to government tax and monetary policy.

The Treasury said that only time would tell whether the model produced more accurate forecasts of the economy. It pointed out that judgment plays an important role in the forecasting process, as did the quality of the data used in the model.

The National Accounts, which show the shape of and changes in demand and which are important building blocks for any economic model, have been the subject of Treasury criticism recently because they do not add up.

A Treasury inquiry into the collection and reliability of statistics is nearing completion and its report is expected to be presented to ministers shortly.

Work on the Slim Model started in the autumn of 1986 under the direction of Dr Geoffrey Meen, an econometrician now working for Oxford Economic Forecasting, a private economic analyst.

The work involved completely re-estimating the data used in the model and the development of new diagnostic properties to assess the quality of the equations used. The old model was developed in the early 1970s and was added to piecemeal; it became difficult to use and to think of as a whole.

By the summer of 1987 most of the work on the model had been completed and computer programming and the design of tables began. The model became operational this spring.

Subsequent to the work of Dr Meen, which resulted in cutting the number of variables used from about 1,200 to around 450, the Treasury has added a number of satellite models to take account of issues relating to the public sector, finance and tax issues.

These other models account for the small size of the Slim Model.

Interest rates of almost 15% forecast for early next year

By Ralph Atkins

INTEREST RATES will rise to an average of nearly 15 per cent next year as the Government seeks to moderate domestic demand, Cambridge Econometrics predicts in its latest forecast released today.

It says a period of high real interest rates represents "unknown territory" for economic policy.

However, it argues there is little evidence that mortgage rate increases will have a large direct impact on total consumer spending.

The report says the effect of a higher cost of borrowing is largely to redistribute income from borrowing households to those that are lenders.

Bank base rates are expected to average 14.7 per cent in 1989, falling to an average of 11 per cent in 1990.

The group says it expects the Government to succeed in its policy of slowing the growth in domestic demand.

Consumer spending is expected to grow by 5.5 per cent this year but only by 2.6 per cent in 1989 and 1.5 per cent in 1990.

Continued deterioration is forecast in the current account deficit, which is expected to reach £16.1bn in 1989. It is then expected to improve slightly to £13.7bn and £12.6bn in 1990 and 1991 respectively.

The group notes the continuing strength of public sector borrowing requirement (PSBR) surpluses, but is pessimistic about early opportunities for Mr Nigel Lawson, the Chancellor, to cut taxes.

It says: "In the short term the evidence of overheating is expected to limit the Chancellor's room for manoeuvre in the 1989 Budget, in spite of the announced aim of reducing the basic rate of income tax to 20 per cent in the long run.

"While a gradual reduction to 20 per cent may be feasible in the longer term (certainly in terms of the PSBR), the forecast assumes that this will be held back by the slowness of the recovery of the balance of payments current account," the report concludes.

Nigel Lawson: Little scope seen for his tax cuts

Personal savings expected to rise

By Ralph Atkins, Economics Staff

THE PROPORTION of income saved by the UK personal sector will rise sharply from next year while consumer spending grows at a much slower pace, Oxford Economic Forecasting predicted yesterday.

Its latest forecast shows high interest rates will have a marked impact in 1989 and following years.

A substantial improvement in the current account deficit is expected but inflation is forecast to peak at more than 7 per cent in the three months to next June.

The report says income rises and the continuing wealth of the personal sector will mean spending growth will remain strong this year.

After increasing by 5 per cent this year, consumer spending is forecast to grow by just 1.6 per cent in 1989 and 1.1 per cent in 1990.

The savings ratio – showing the proportion of personal sector income saved – is forecast to rise from a low of 3.0 per cent in the last three months of this year to more than 7 per cent by the end of 1990.

Higher interest rates are also expected to hit house prices. The rate of growth of house prices is forecast to reach 20 per cent this year before falling to 9 per cent and 2 per cent in the two subsequent years.

The report is optimistic that lower domestic demand growth and strong exports will lead to a significant improvement in the UK current account. A deficit of £14bn is forecast for this year, falling to about £10bn next year and nearly £6bn in 1990.

However the report warns that Mr Nigel Lawson, Chancellor of the Exchequer, could face difficulties in finding the correct mix of fiscal and monetary policies.

It says: "The Chancellor is not by nature a fine-tuner, and so there is a real danger now that monetary stringency at the end of this year, combining with a fiscal squeeze at Budget-time, could hit the economy harder than may have been intended."

Investment rise 'likely to continue'

By Peter Norman, Economics Correspondent

THE SURGE in investment in Britain is likely to be sustained for another 12 months in spite of high interest rates, says the London Business School.

In its quarterly forecast published today, the LBS predicts that Britain's current account balance of payments deficit will peak this year at £12.5bn, but bank base rates will not start falling until the middle of next year.

The LBS forecasts that Mr Nigel Lawson, Chancellor of the Exchequer, will take one percentage point off the 25 per cent basic rate of tax in his budget next year because policy will be aimed at reducing inflation and the current account deficit.

Further tax cuts of two pence in the pound could be announced in each of the two following years. Bank base rates, currently 12 per cent, could be down to 10 per cent by the end of 1989, the LBS believes.

The LBS says investment is the most rapidly growing component of demand in Britain. It expects manufacturing investment will rise by 16 per cent this year and continue growing by more than 10 per cent in 1989.

The growth in investment is part of a world-wide investment surge with 1988 "likely to be the best year for investment in the Group of Seven (leading industrial countries') economies since the 1970s."

ECONOMIC FORECASTS

	1988	1989	1990	1991	1992
GDP	4.7	3.2	2.7	2.5	2.3
Inflation	4.2	5.0	5.8	5.9	5.5
Consumers' expenditure†	5.1	2.8	3.1	2.7	3.1
Total Fixed Investment†	10.2	2.5	2.6	3.0	3.0
Gen.govt.consumption†	1.8	1.0	0.9	0.9	0.9
Stockbuilding†‡	2.4	1.3	1.3	1.4	1.8
Exports†	0.7	5.8	3.0	1.9	1.6
Imports†	8.4	3.0	1.7	1.4	2.6
Sterling Index§	76.0	73.0	71.0	71.0	72.0
PSBR (£bn)	-10.3	-11.8	-12.6	-12.6	-15.4
Current a/c deficit (£bn)	-12.5	-11.5	-10.2	-8.0	-6.8
Adult unemployment (m)	2.4	2.1	1.9	1.8	1.8

Percentage change unless otherwise stated; † percentage change in volume; ‡ £bn,1980 prices; §1975 = 100.

Source: Economic Outlook 1988-1992, October 1988

Although most economic forecasting models predict that this surge will weaken next year, the LBS says a case can be made from structural, technological and competitive factors for forecasting a continuation of the rise.

Businesses throughout the world are having to invest to avoid missing out on the very advanced technology of the present generation of investment goods, it says.

The US is investing more to serve its growing export market. Japan has increased its investments to meet growing domestic demand and to fend off competition from newly industrialising economies such as South Korea, Taiwan, Hong Kong and Singapore. European businessmen in turn must increase their investment to counter Japan's ability to produce more reliable products at lower cost.

The LBS forecasts a sharp slowdown in the growth of UK consumption next year. Partly because of this, the current account deficit will narrow to £11.5bn in 1989, falling further to £6.8bn in 1992. At this reduced level, however, the deficit will still account for more than 1 per cent of gross domestic product.

Retail price inflation is "certain" to rise to 7 per cent early next year because of the higher mortgage rates that have already been announced. The LBS believes 7 per cent will prove to be a "local peak" and that retail price inflation will fall to around 5 per cent by the end of next year. However, inflation will then fluctuate between 5 per cent and 6 per cent in the period to the end of 1992.

This limited success in combating inflation will be accompanied by a further increase in the Government's budget surplus. The surplus will rise from £10.3bn in the present 1988-89 financial year to £15.4bn by March 1993. The LBS expects that the surplus, or public sector debt repayment, will amount to £62.7bn in the five years to March 1993.

Sterling is expected to depreciate next year, with the Bank of England's trade weighted index falling from about 76 this year to about 72 by the end of 1989.

Growth will slow against this background of tight monetary and fiscal policy. The LBS forecasts that Britain's GDP will increase by a real, inflation-adjusted 3.2 per cent in 1989 compared with 4.7 per cent this year and then average 2.5 per cent until the end of 1992.

After declining by half a million in the past 12 months, unemployment will continue to fall, but at a slower pace. The LBS expects adult unemployment will settle at about 1.8m in the early 1990s after dropping to 2.1m in 1989 from 2.4m this year.

Economic Outlook, Vol 13, No 1, Gower Publishing, Gower House, Croft Road, Aldershot, Hampshire GU11 3HR. Annual subscription £135.

London business confidence hit

By Alan Pike

BUSINESS confidence in the service and production sectors of London's economy has fallen with the recent rises in interest rates, the London Chamber of Commerce says in a survey published today.

It says the mood of the capital's business community is "more subdued, with investment intentions and turnover and profitability expectations lower than earlier this year."

In the chamber's last quarterly economic survey in June, 57 per cent of respondents in the service sector and 36 per cent in production industries expected profits to increase during the following 12 months. By the time of the latest survey last month, these proportions had dropped to 37 per cent in services and 28 per cent in production. The figures are compiled on a weighted basis by company size.

A slowdown in domestic demand has accompanied the decline in confidence. This is particularly marked among larger companies in the service sector, where the proportion reporting increased business is down from two-thirds to a half.

The report says prospects for the next three months suggest that the services will experience a pick-up in domestic business, but that there will be little change in the production sector. Given the rise in interest rates and the strong pound the London business community has lowered its turnover and profitability forecasts for the year ahead in 1989, the service sector taking a more pessimistic view than production.

Unemployment in London, says the report, continues to fall less sharply than elsewhere in the country – a decline of 14 per cent between January and August compared with 18 per cent nationally. Inner London remains a particular problem, with unemployment declining at only two-thirds the national rate and, proportionately, with twice as many people unemployed as in outer London.

Staff shortages none the less remain a serious problem in the capital. The survey shows 66 per cent of respondents in production industries and 54 per cent in services experiencing recruitment difficulties.

Economic Report and Survey, October 1988. London Chamber of Commerce, 69 Cannon Street, London EC4N 5AB. £5 (members); £12 (non-members).

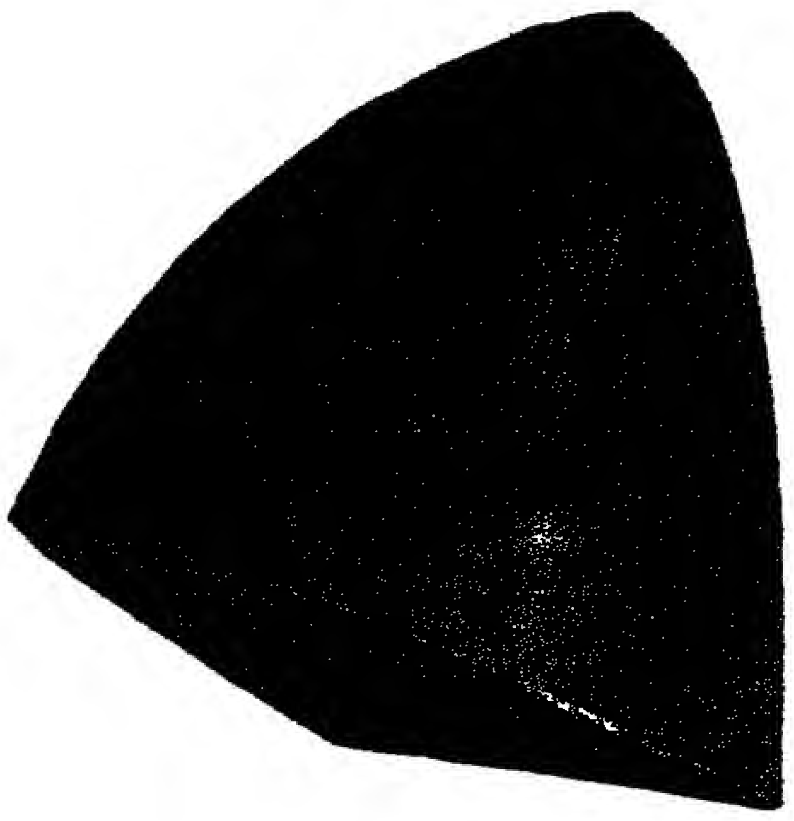
LBS chief plea on fiscal policy

By Simon Holberton, Economics Staff

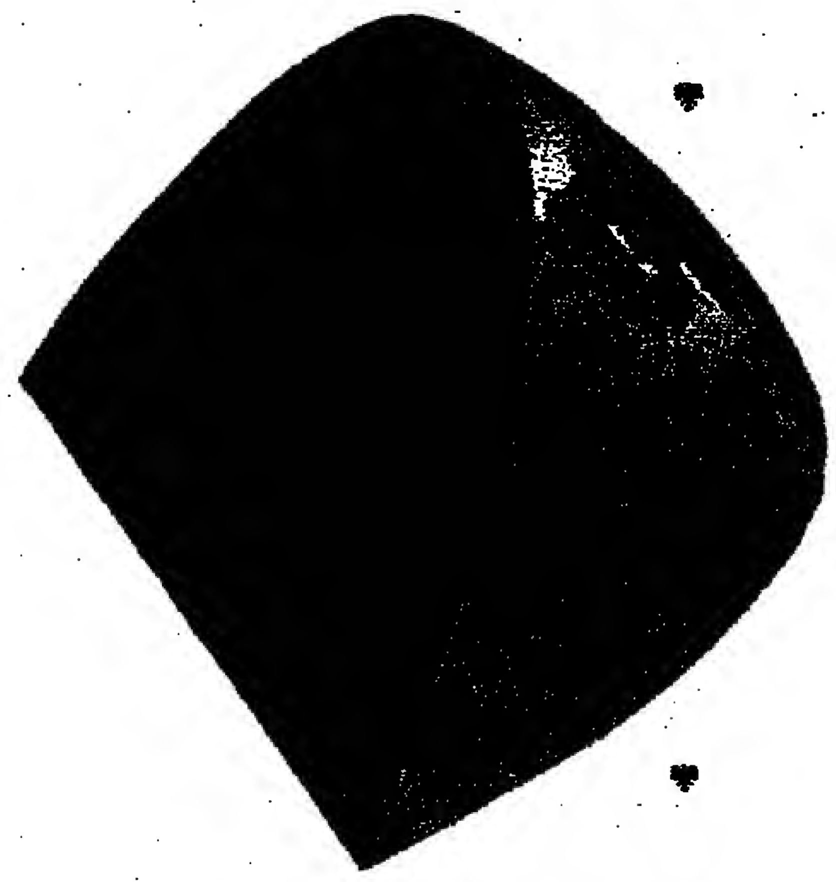
PROFESSOR DAVID CURRIE, head of economic forecasting at the London Business School, has called for a greater use of fiscal policy in the operation of the Government's economic policy.

In his first "economic viewpoint," contained in the LBS's latest Economic Outlook, Professor Currie says exchange rate targeting may be more compatible with stable economic expansion if fiscal policy "acts to help stabilise domestic demand."

He also says the challenge for policymakers is to devise a set of rules for the operation of monetary policy now that the value of monetary aggregates has been degraded by financial market innovation.



Does your bank only deal in a fraction of the world's currencies?



Is each of your bank's dealing rooms working in isolation from the rest?

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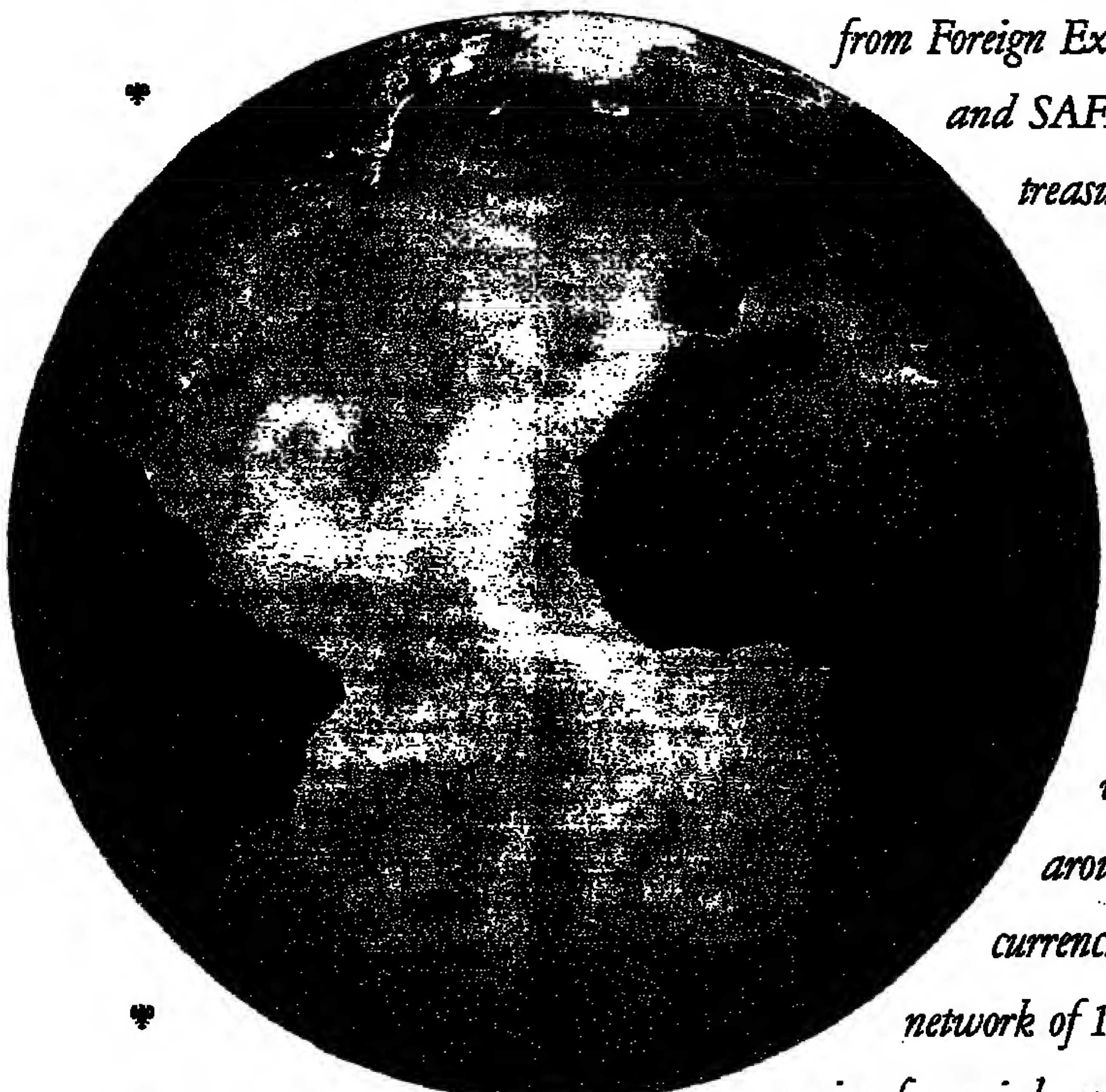
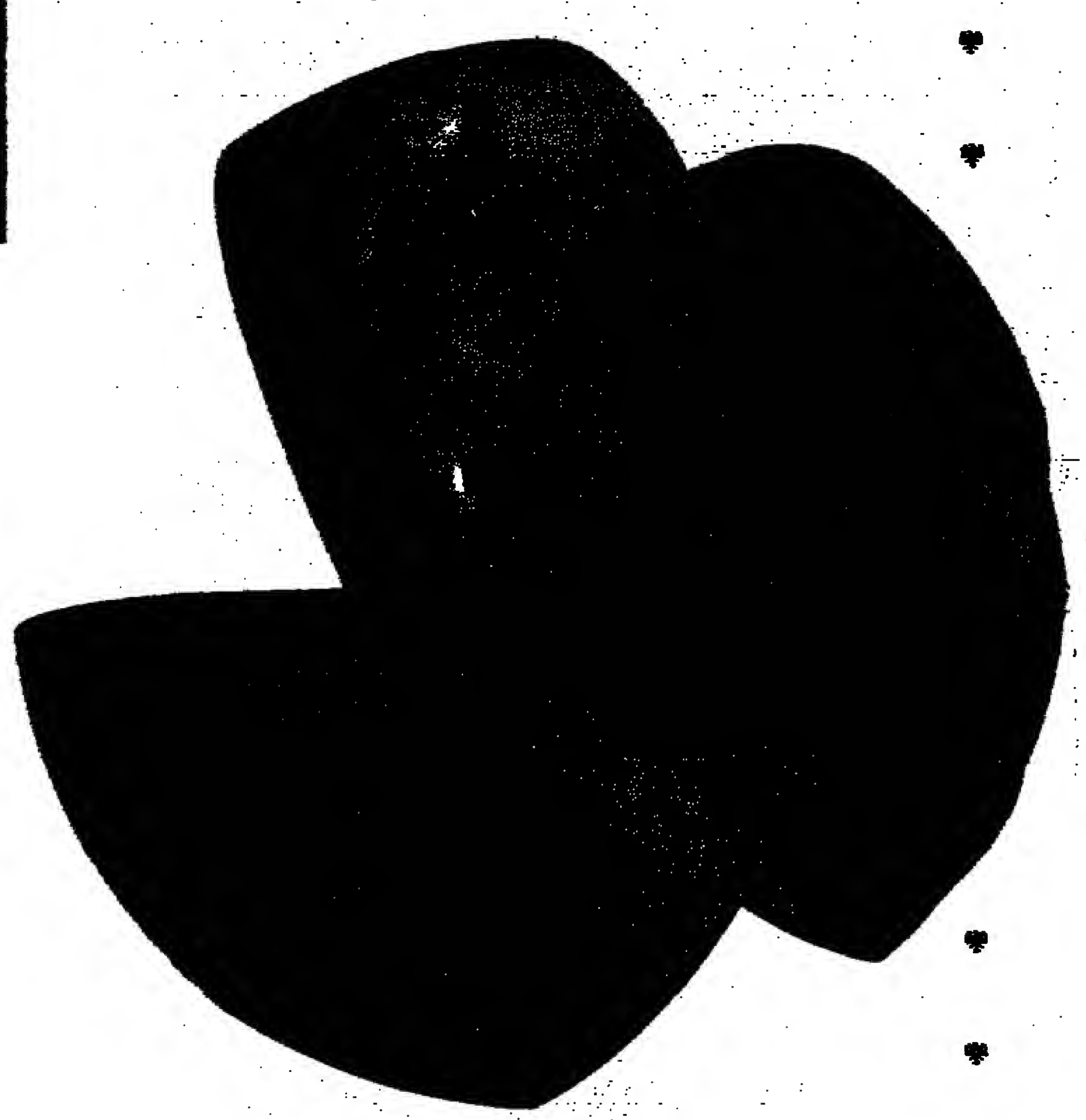
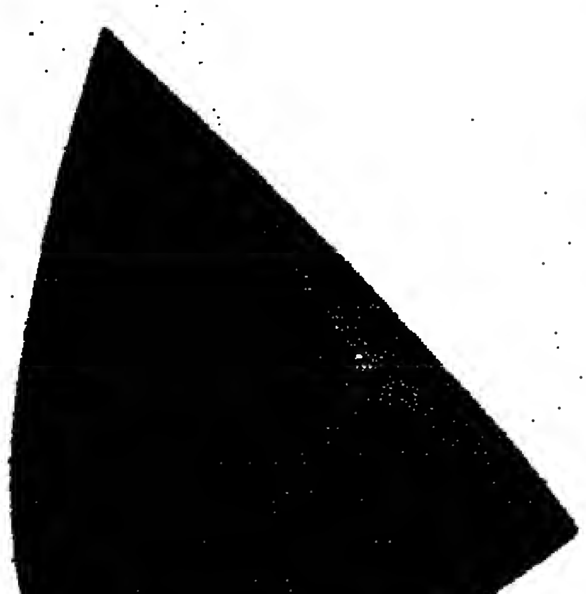


Barclays offers the truly global treasury service.



Are there big gaps in your bank's international coverage?



Is your bank's international risk management service somewhat incomplete?

* * * GLOBAL TREASURY SERVICES

BARCLAYS

Tory revolt in prospect over health charges

By Tom Lynch

CONSERVATIVE MPs are set to stage one of the biggest revolts of the current Parliament tomorrow night over the Government's plans to introduce charges for dental checks and eye tests, previously provided free under the National Health Service.

Dame Jill Knight, chairman of the Conservative backbench health committee and a leading dissident on the proposal, claimed yesterday that the rebels would stand firm and might be numerous enough, with the opposition parties, to defeat the Government.

Ministers may try to defuse the revolt by announcing extra spending on the NHS in the Chancellor of the Exchequer's autumn statement earlier tomorrow afternoon. Concessions may also be made to special groups, such as pensioners.

The charges were brought forward as part of the Health and Medicines Bill, but were removed during the bill's passage through the House of Lords. Ministers will seek to restore them when the bill returns to the House of Commons tomorrow.

Speaking on BBC radio yesterday, Dame Jill acknowledged that she and her fellow rebels had come under pressure from ministers and Government organisers. However, she said, "no arguments of substance" had been put to them, merely a reiteration of the Government's belief that charges would not deter people from having checkups.

She insisted that a number of people would not be able to afford the charges and that the move would cost the Government more in the long run than the £250m a year it is likely to save. The rebels believe that early signs of illness now picked up by the checks would be missed and the later treatment proportionately more expensive.

Dame Jill said an announcement of extra cash would not satisfy her – she knew of no better use for extra resources than paying for checkups.

More than 80 Conservatives have signed her House of Commons motion opposing the charges, and she hinted that not all of those who would vote against the Government had yet declared their intention. However, she acknowledged that some backbenchers with hopes of advancement might buckle to pressure from the party hierarchy.

About 50 to 60 Tories would have to vote against the Government to overturn its majority of 102 over all other parties in the Commons, or 118 excluding the Northern Ireland parties.

Ridley goes for N-power and cleaner environment

By Tom Lynch

A MASSIVE increase in the use of nuclear power is needed to protect the environment from the slow heating of the earth's surface known as the greenhouse effect, Mr Nicholas Ridley, UK Environment Secretary, said yesterday.

Speaking on BBC television, he threw more light on the Government's environmental thinking – draft legislation is expected in the next session of Parliament – and stepped up the pressure for nuclear energy, building on earlier ministerial assertions that nuclear power is clean and safe.

Mr Ridley said the elimination of chlorofluorocarbon (CFC) emissions from sources such as aerosols was "the first, most immediate and most important thing we can do" to combat the greenhouse effect.

Carbon dioxide emissions from coal- and oil-fired power stations, another major factor in the greenhouse effect, meant that the nuclear programme was "the only serious way of reducing our carbon emissions." Mr Ridley continued: "There is absolutely no doubt that if we want to arrest the greenhouse effect, we should concentrate on a massive increase in nuclear generating capacity."

He refused to be drawn on how many more nuclear stations should be built in the UK, but accepted that hundreds would be needed around the world.

The environmental pressure group Friends of the Earth attacked Mr Ridley's remarks, suggesting that the Government's recent stress on the environment was being used to justify the expansion in nuclear power ministers had always wanted.

His comments were also condemned by Dr John Cunningham, Labour environment spokesman. He said: "To suggest that a massive programme of nuclear power is the way forward is to fly in the face of reality, especially since this Government, after almost a decade, has no coherent thoughts on how to manage the growing amount of nuclear waste in Britain."

Civil servants reach basic pay settlement

By John Gapper, Labour Staff

ABOUT 60,000 scientific and specialist civil servants are to get a basic pay rise of between 4 and 5 per cent in a deal marking the first return to pay comparability with the private sector for seven years.

The deal with the Institution of Professional and Civil Servants – reached last week after protracted talks – is the first award under one of the long-term flexible pay agreements which are spreading across the civil service.

As part of the agreement, there will be higher increases for some specialists in regions such as London and the south-east, where comparable workers in the private sector are paid more than in other parts of the country.

Details of the deal, which will be announced today, are likely to be examined closely by other civil service unions which have either signed similar deals or are in the process of negotiating them.

Electricity workers go for share ownership

Michael Smith on an innovative approach by trade unions facing privatisation

Just a few years ago it would have been inconceivable. The idea that trade union leaders should campaign for their members to be able take part ownership in privatised companies would have been viewed as treachery.

Still less would trade union officials have been seen consulting in the City about innovative ways to push employee share ownership in soon-to-be-floated state enterprises to the maximum and then increase the holdings over the years.

That, however, is what the unions representing the electricity supply industry's workers are doing as part of what is generally regarded as one of the most pragmatic union campaigns yet on privatisation.

Their stance will undoubtedly have its critics among the trade unionists who meet at the Trades Union Congress today for a conference on privatisation. Opponents, including Mr Arthur Scargill of the National Union of Mineworkers, are, however, in a minority and their numbers are dwindling.

Although the eight unions in the Electricity Supply Trade Union Council stress that they remain implacably opposed to privatisation, they also recognise that, barring extraordinary circumstances, they cannot stop it.

The result is that, as well as campaigning against the industry's flotation on the stock market, they are also concentrating on how to get the best deal possible for the industry's employees.

Opposition on the political left to employee share ownership in privatised industries is based in part on the assumption that a future Labour Government would bring the companies back under state control. That would be made all the harder if Labour voters, including trade unionists, owned shares in the company.

It would, for example, virtually rule out the possibility of buying back shares at their flotation price.

Mr John Lyons, general secretary of the Engineer's and Managers' Association, a moderate union, and secretary of Estuc, dismisses the criticisms. "It is a fact of life that no government would be able to renationalise companies on the bases of devaluing shares.

"We have to deal with practicalities. Members will be given shares and our job is to get the best deal possible."

Nor are such views restricted to the right of the union movement. Mr Jim Mowatt, national energy officer of the left-led TGWU general workers' union says: "People do have ideological objections but you have to confront reality and the reality is that workers want shares."

That fact has been demonstrated in all major privatisations so far. In each of these, by far the majority of workers have taken up their entitlement to free or cut-price shares, sometimes to the embarrassment of their unions. For example, the Post Office Engineering Union, a predecessor of the NCU communications union, was widely thought to have discredited itself during the privatisation of British Telecom by its opposition to workers taking shares. In the event 96 per cent of BT employees took up the share option.

Since then, of course, a large number have sold or reduced their holdings. Advocates of employee share ownership regard this as a wasted opportunity because of the loss of leverage over management through lost shareholder votes.

It is partly to address this problem that Estuc has proposed to the Government that the new electricity boards which emerge from privatisation should set up Employee Share Ownership Plans (Esops), the advantages of which would include the creation of an internal market for shares among workers.

Although common in the US, the Esops concept arrived in Britain only two years ago and there are only about a dozen schemes in operation, none of them in privatised state industries.

In a typical Esop, a trust is set up which then borrows money to buy shares to be distributed to workers at a future date, sometimes free, sometimes at reduced rates and sometimes at the market value. The borrowed money is paid back later through company contributions drawn from profits.

Workers have an incentive to buy and sell shares through the trust because of reduced dealing charges. Partly because of this the proportion of the company owned by its employees will not be reduced and, because of company contributions, will be increased.

The idea of setting up an Esops scheme in a privatised industry was first considered by unions involved in discussions for the privatisation of British Airways.

It came too late, however, for serious consideration and instead the unions set up a second-best scheme whereby 5,000 BA employees agreed to give trade union representatives proxy voting rights over their shares.

The electricity supply trade unions have pressed their case at an earlier stage. They are arguing that 10 per cent of the post-privatisation companies be made available to employees and ex-employees in the form of free and preferential shares.

The Department of Energy says only that it is considering the scheme. The Government, however, strongly supports the Esops concept and approving a series of Esops schemes in electricity would give the Government an ideal opportunity to demonstrate its commitment to employee share ownership.

Compulsory purchase plan for power station sites

By Maurice Samuelson

OWNERS of sites in Britain earmarked for new power stations will be given special powers to bid for each other's territory once the electricity industry is privatised.

The proposal, which will inject a new competitive element into the industry after privatisation, is expected to feature in the forthcoming electricity legislation.

The powers will be given to all licensed generators. In particular, it should sharpen rivalry between Big G and Little G, the names tentatively given to the two companies which will inherit the power stations currently owned by the Central Electricity Generating Board.

Conflicts arising out of the use of these powers would be handled by the regulatory body which will supervise the industry after privatisation.

Under the draft legislation's special powers, to be tabled in Parliament by the end of the year, a generating company which thinks it could make better use of a site belonging to a rival generator could invoke a compulsory purchase order to take control of it.

In vesting all the existing power station sites in the CEGB's successor companies, the Government overturned an alternative proposal to set up a "land bank" controlled by the state, which would have disposed of sites as though they were oil or gas exploration areas.

Ministers found this incompatible with the policy of denationalising electricity since it would have left the Government as final arbiter on disputes over land. Instead, arbitration will be entrusted to the industry regulatory authority.

The power to bid for another company's land would not be restricted only to the CEGB's successor companies. It would probably be shared by all licensed generators, including large civil engineering groups and oil companies, which are queueing up to build new power stations.

Several of these would-be entrants to the electricity industry have large tracts of land which could be suitable for power stations. However, they would potentially be targets, as well as initiators, of compulsory purchase orders for power station sites under the proposals.

APPOINTMENTS

Nationwide finance posts

■ NATIONWIDE ANGLIA BUILDING SOCIETY has appointed **Mr Brian Murkin** as general manager responsible for finance, replacing **Mr Richard Fisk** who has retired. Mr Murkin was assistant general manager (finance). **Mr Chris French**, the society's secretary, is promoted to assistant general manager (financial management); and **Mr John George**, pension fund manager, is promoted to assistant general manager (financial accounting).

■ **Mr Michael J. Lodge** has joined the board of STEETLEY. He is managing director of Steetley Quarry Products, the group's European quarry division.

■ MATTHEW HALL ENGINEERING has promoted **Mr Barrie Logan**, a divisional director, to director responsible for engineering and computing; and **Mr Hugh Shyvers**, a divisional director, to director responsible for technical marketing. **Mr Jan Vonder**, director and general manager of Matthew Hall Engineering (Scotland), becomes managing director (operations) of Matthew Hall Keynes Engineering, Schiedam, Holland. He is succeeded as general manager by **Mr Mike Stevenson**.

■ **Mr Gary FitzGerald, Mr Tristan Hillgarth** and **Ms Anne McMeehan** have been appointed to the board of FRAMLINGTON GROUP.

■ **Dr Bill Henderson**, former managing director of Cambridge Instruments, has been appointed chairman of RBS SYSTEMS.

■ **Mr Stuart Lamb** has been appointed to the board of BARDON GROUP as an executive director. He is president and chief executive officer of US subsidiary, Bardon Trimount, which was acquired earlier this year. **Mr David Hobley** retires as a non-executive director due to increased responsibilities with S.G. Warburg & Co., of which he is an executive director.

■ PEARL ASSURANCE has appointed **Mr Peter Beeke** as general manager (information systems), Peterborough. He was general manager (management services) with Woolwich Equitable Building Society, and succeeds **Mr David Davies** who has been appointed general manager (business and product development).

■ KUMAGAI GUMI U.K. has appointed to the board **Mr Leonard Arnold**, managing director of Arnold Project Services, which the company acquired in September.

■ LOWNDES QUEENSWAY has appointed **Mr David Tibble** as finance director. He joins from Storehouse where he was group financial controller.

Mr John Sinclair is to be assistant general manager (field operations), at GUARDIAN ROYAL EXCHANGE. He was assistant general manager (services), and succeeds **Mr Donald Surgenor** who is retiring.

■ **Mr Patrick N. Darley**, deputy chairman and chief executive of BRIDPORT-GUNDRY, has been appointed chairman in succession to **Mr Robert W. Holder**, who is leaving the board but will remain chairman of Bridport-Gundry (Ireland). **Mr Royston J. Mountain**, who was a director of United Scientific Holdings, and **Mr David J. Sebire**, chairman of Ultra Securities, have been appointed non-executive directors of Bridport-Gundry.

■ KIER, contracting division of Beazer, has appointed **Mr Martin Scarth** as regional managing director for Kier London and Kier Southern, and **Mr Dick Side** as regional managing director for Kier Wallis and Kier South East. **Mr Roy Stevens** will be retiring at the end of the year, but remains chairman of the four companies until then.

■ QUADRANT GROUP has appointed **Mr R.D. Pike** to the board to run Sangers, the consumer photographic division. He was with J.J. Silber, a subsidiary of Great Universal Stores.

■ **Mr Norman L.G. Lambert** has been appointed deputy managing director (south) of FAIRCLOUGH BUILDING. He was managing director of Higgs & Hill Building.

■ TRI-SPRAY (UK), Leeds, has appointed **Mr Joe Hughes** as sales director, following the acquisition of Inmar Contracting Equipment where Mr Hughes was managing director.

■ **Mr Duncan Ferguson** has joined BACON & WOODROW, consulting actuaries, as a partner. He was director of the international division of Eagle Star.

■ Hill Samuel Unit Trust Managers, a division of HILL SAMUEL INVESTMENT SERVICES GROUP, has appointed **Mr Robert F. Pennells** as investment director. He was a director, Hill Samuel Asset Management International.

■ **Mr John Hinton**, a director of Hill & Knowlton, and head of its corporate group, is leaving to join CORPORATE IMAGE, a consultancy formed by his wife, Gay, two years ago.

■ **Mr Roger Palmer** has been appointed marketing director of PAULS AGRICULTURE. He was marketing manager.

■ **Mr John Forster** has been appointed finance director of CANADA MARITIME SERVICES. He was managing director of Transtema.

■ **Mr John Sutherland** has been appointed to the new post of commercial director of WOODWARD GROSVENOR. He is succeeded as financial director by **Mr Iain Mackenzie**, who was financial director of Kalamazoo.

■ **Mr Andrea Gavazzi** has joined MERRILL LYNCH in London as vice president in the Italian investment banking team. He was an associate director at First Chicago in London.

■ **Mr Robert E. Barnes** has been appointed director responsible for property finance at NYCKELYN FINANCE COMPANY. He was a vice president of Bank of Montreal in London.

■ **Mr Colin Grant-Wilson** has been appointed to the board of KORN/FERRY INTERNATIONAL. He was branch manager of Bank of America in Geneva.

■ **Mr Norman Forsythe** has been appointed sales director of GENTECH INTERNATIONAL. He was national sales manager.

■ VICTAULIC has appointed **Mr Richard Legrand** to the board. He is responsible for the overall direction of subsidiary Viking Johnson.

■ **Mr Jonathan F. Taylor**, chief executive of Booker, has been appointed a non-executive director of TATE & LYLE.

■ **Mr John Harrison** has been appointed technical director of the ROYAL OPERA HOUSE. He held a similar post with the Welsh National Opera Company.

■ **Mr Anthony Fry** and **Mr Alan Graham** have been appointed directors, and **Mr Gerald Goldsmith** has been appointed a non-executive director of N.M. ROTHSCHILD & SONS.

■ ATLANTIC COMPUTERS has appointed **Mr Richard Osborne** as chairman and chief executive of Atlantic Technology Services to commence early next year. He will also join the parent board. Mr Osborne is an executive director and head of the financial systems division of Data Logic.

Mr Herwick Tan has been appointed director of perfumery at CONTEMPORARY PERFUMERS, Bishop's Stortford. He was managing perfumer for BRA Aroma Chemicals.

UK NEWS

Group set up to boost number of ethnic businesses

By Alan Pike, Social Affairs Correspondent

THE HOME OFFICE is setting up an advisory group of industrialists to help devise ways of encouraging more members of Britain's ethnic minorities to start their own businesses.

An initial meeting between business leaders and Mr John Patten, Minister of State at the Home Office, took place earlier this month and the group will be launched formally before the end of the year.

Its members will include successful Asian and Afro-Caribbean business figures. They will try to communicate the secrets of their success to other members of their communities.

Many ethnic minority businesses, particularly those in the service sectors, tend to depend for much of their trade on local Asian and Afro-Caribbean communities. Part of the purpose of the advisory committee will be to seek ways of helping black business people move into mainstream economic activities.

As part of its responsibility for community relations, the Home Office has helped set up specialist business advice centres catering for the needs of ethnic minorities in London, Birmingham and Bristol. It is also encouraging conventional enterprise agencies to give greater attention to facilities for ethnic minorities.

The Home Office is also trying to persuade banks to be more accommodating towards black people seeking finance to start or expand businesses.

Mr Patten says chairmen and senior executives of banks are genuinely willing to support ethnic minority businesses. But problems can arise at regional level, where with lack of a proven business record being black can become an additional disadvantage, if too much caution prevails among local management.

"There are signs that the banks are beginning to show more interest in ethnic minority businesses," said Mr Patten. "We have to encourage them, insurance companies, chambers of commerce and other agencies to do more to help."

Many black businesses and potential businesses are situated in inner city areas where, because of high crime rates and memories of riots, insurance is sometimes unobtainable.

The Home Office hopes that its crime prevention initiative, Safer Cities, will help tackle this problem.

The scheme, already running in Wolverhampton, Bradford and Nottingham, will be extended to Coventry, Birmingham, Hartlepool and the London boroughs of Tower Hamlets and Lewisham by the end of the year. Under the scheme, police forces, local authorities, businesses, voluntary organisations, chambers of commerce and other agencies are involved in a co-ordinated drive against crime.

Most of the Safer Cities target areas have large ethnic minority populations and Mr Patten hopes that if crime levels can be reduced – a pilot project on Tyneside halved the rate of business crime – insurance companies will look more favourably at the needs of small inner city businesses.

Kennedy top in SLD election

By Ivan Lynch

MR CHARLES KENNEDY, the MP for Ross, Cromarty and Skye, who is often tipped as a future leader of the Social and Liberal Democrats, topped the poll in the party's national executive elections.

Also elected were Mr Des Wilson, the former Liberal president, Ms Maggie Clay, Mr Tim Clement-Jones, Ms Celia Goodhart, Mr Phil Harris, Mr Gwynoro Jones, Mr Gordon Lishman, Mr Alex McGiven, Mr Tom McNally, Ms Valerie Silbiger, Mr Dick Taverne and Lord Tordoff.

The results will be seen as favouring more radical tendencies, with the failure of some "establishment" party figures to win a place.

Computer aided design pioneer sold again

By Alan Cane

A British-based company reckoned to be a world leader in computer-aided design has been bought by McDonnell Douglas Information Systems, part of the US-based aerospace and automation group.

It is the second time the company, Shape Data of Cambridge, has changed hands, both times to US owners. McDonnell Douglas would not reveal the price.

Shape Data is a pioneer in the development of computer software which enables engineers to create apparently solid, three dimensional models of products and components on computer screens.

It was formerly owned by Evans and Sutherland of the US, a manufacturer of computer terminals and workstations.

Shape, which employs 84 people, was one of a small group of entrepreneurial companies specialising in computer aided engineering design and manufacture (CAD/CAM) which sprang up in Cambridge in the 1970s, mostly as spin-offs from the university's computing and engineering activities.

It was bought by Evans and Sutherland in 1981 but, according to Mr Ron Belcher, Shape's managing director, fitted awkwardly into its owner's predominantly hardware-based marketing activities.

Negotiations to buy the company began some six months ago when McDonnell, which had been seeking world class solid modelling software to incorporate into its product line, discovered that Shape was for sale.

Mr Martin Jones, general manager of McDonnell Douglas Information Systems, says the acquisition strengthens the company's position in the global CAD/CAM market.

There was no direct competition to Shape's solid modeller "Parasolid" and he intended to try to establish it as an industry standard.

Shape Data's customers include Ferranti Infographics, Hewlett Packard and Siemens.

The coming of age for personal pensions

Eric Short assesses the options for employees who contract-out of Serps

THE Prudential Assurance Company, the main life company within Prudential Corporation, sold 212,000 new-style personal pensions in the three months from July 1 1988, when these contracts became available.

Of these, 180,000 were used by employees to contract-out of the State Earnings-Related Pension Scheme (Serps), known as protected rights contracts.

The Prudential says it has at least a quarter of the personal pension market and its experience has been replicated on a smaller scale by many life companies. These figures, from a straw poll of life companies, shows quite clearly that the personal pensions market was extremely buoyant in its first three months.

This will be welcome news for the Government, which has made wider pensions choice for employees one of its main goals.

Under the radical pension changes introduced this year, employees now have the choice of opting out of their company pension scheme and/or Serps and making their own pension provision through a personal pension.

There is no evidence as yet that of a massive exit by employees from company schemes. The Prudential's policy is not to sell, unless specifically requested, personal pensions to employees already in – or eligible for – membership of good company pension schemes.

However, there is strong evidence that employees are using personal pensions to opt out of Serps, encouraged by the 2 per cent incentive contribution paid by the Government to employees contracting out of Serps for the first time.

Again, this information will be welcomed by the Government as it is eager to reduce the involvement of the State in pension provision. The Government has as a key objective a significant reduction in the number of employees in Serps.

The table shows that those life companies with direct sales teams dealing directly with the public are having the most success in marketing personal pensions.

Allied Dunbar, Britain's largest linked life company, has sold about 87,000 personal pensions, nearly half of which are protected rights contracts.

Pearl Assurance, a home service company like the Prudential, has sold more than 38,000 personal pensions – over 40 per cent being protected rights.

Abbey Life, another big direct selling company, would not provide figures, but claims a high level of sales – about half being protected rights.

Pensions in general have to be sold to employees. Direct selling methods tend to bring this message to employees, rather than independent personal financial advisers who tend to wait for individuals to come to them.

Nevertheless, life companies marketing solely through independent advisers are reporting steady personal pension sales.

Standard Life Assurance achieved sales of about 36,000 – two-thirds being protected rights. Norwich Union Life Insurance sold some 19,000 contracts – half being protected rights.

This experience rejects assertions that independent advisers would not market protected rights personal pensions where the average commission payment on a contract is about £50. They appear to accept that selling such contracts is laying the foundations for future pension sales.

One interesting feature is that two companies which were big players in the self-employed pension market – Equitable Life and National Provident Institution – have made a quiet start in this new sector.

However, in spite of the successful start, life companies are not yet fully exploiting the potential market for personal pensions.

Mr Nigel Chambers, technical director of the financial marketing firm Moorgate Group, estimates that about 3.5m employees not in company pension schemes would be better off with a protected rights personal pension.

He feels that this market is not being attacked in the right manner by life companies or the new pension providers – banks and building societies.

The new legislation enables banks and building societies to market personal pensions. These institutions, with their countrywide branch networks should be able to penetrate the C1 and C2 class employees not in a company pension scheme.

Midland Bank reports more than 10,000 personal pension sales in the first three months and regards this as a creditable start.

However, Abbey National is somewhat disappointed by the response so far to its personal pension promotion. Mr Mike Burns, head of its insurance and pensions operations, said enquirers were enthusiastic about personal pensions once the situation had been explained to them.

But he claimed that the level of ignorance on pensions was deplorable. It was no good telling people they would be better off contracting out of Serps when most of them do not appreciate that they were in Serps in the first place.

The Prudential is planning another big marketing campaign on personal pensions early in the New Year, ahead of the end of the financial year.

PERSONAL PENSION CONTRACTS SOLD JULY-SEPTEMBER

Company	Number of contracts	Number contracted-out of Serps
Prudential	212,000	180,000
Allied Dunbar	87,000	40,000
Pearl Assurance	38,000	16,600
Standard Life	36,000	24,000
Norwich Union	19,000	9,500
GRE	12,800	–
Equitable Life	10,400	3,500
NPI	7,350	6,100

Gilt-edged market makers' hopes dashed

By Simon Holberton, Economics Staff

THE HIGH HOPES of the gilt-edged securities market have given way to disappointment two years after Big Bang opened up the market to increased competition, according to CL-Alexanders Laing & Cruickshank yesterday.

In a lengthy analysis of the market over the past year Alexanders says few, if any, of the 24 gilt-edged market makers are profitable and "a difficult time for all lies ahead."

The change in the Government's relationship to the market, from being a seller to buyer of debt, has meant market activity has been reduced to the detriment of both dealers and investors.

Alexanders says revenues from dealing may have fallen by as much as a third over the past year while market making capacity has contracted by just 12 per cent.

Dealing revenues are insufficient to cover the running costs of an operation dedicated to making a market in British Government debt and market makers have been forced into the risky business of position taking in order to bring in adequate revenues.

"Position taking has now become a zero sum game," Alexanders says. "The market makers as a group can only make profit if someone else is making a loss."

It says the change in the Government's financial position means that the gilt market is contracting. There will be a likely public sector debt repayment of £10bn this year and there is no immediate end in sight to this process.

However, Alexanders argues that there are reasons why the Bank of England is unwilling to see the market "expire with a whimper."

The market has an important role to play in the setting of long-term interest rates; there is no guarantee that the Government will not want to borrow in the future; and, even if there are no net gilt sales in the foreseeable future, dealing with the regular redemptions of Government debt may require modest re-funding with new issues of stock.

Alexanders says the Bank has been more willing recently to support the market and its need to buy Government stock has made life much easier for market makers. But it is unclear to what extremes the authorities will be willing to go in order to keep a healthy secondary market in gilts alive.

It suggests the Bank should relax the regulations applying to market makers, allowing them to move into other fixed-interest markets. This would ensure the survival of the market making mechanism in difficult years, although such a move offers only a "glimmer of hope."

Alexanders also highlights the problems investment institutions, such as life companies and pension funds, may face in the light of the Government's policy of buying back its debt. They may find it difficult to buy the securities they desire with which to match their liabilities.

The Second Year: A Review of the Gilt-Edged Market two years after Big Bang. CL-Alexanders Laing & Cruickshank, 65 Cornhill, London EC3V 3PP. No price given.

S&N launches low-alcohol and premium lagers

By Maggie Urry

SCOTTISH & Newcastle Breweries, currently the object of a £1.6bn hostile bid from Elders IXL, the Australian brewing and trading group, is launching two lager brands.

One is a low-alcohol lager, called McEwan's LA, which will be available nationally from early next month. The other is a strong, premium lager, McEwan's Makler, which will go on sale in December. Both are aimed at segments of the lager market which are showing faster-than-average growth.

Mr Alick Rankin, S&N's chief executive, said: "The unwelcome bid from Elders IXL will not distract us from continuing to develop successful brands."

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UK NEWS

Opting-out policy for schools attacked

By David Thomas, Education Correspondent

MR JACK STRAW, Labour's Education spokesman, is launching an attack on the Government's policy of encouraging schools to opt out of local authority control in the week when the result of the first parental ballot on opting out is expected.

Mr Kenneth Baker, Education Secretary, sees the ability of schools to opt out, following a lengthy procedure which involves parental ballots, as a key part of the Government's drive to break local authority hold on education. Opted-out schools, to be known as grant-maintained, will continue to be free, but will be funded directly by the Department of Education and Science.

The first result of a parental ballot on opting out, at Skegness Grammar School, Lincolnshire, is expected this week. Mr Andrew Turner, director of the Grant-Maintained Schools Trust, a body with close links to the Education Department which is advising schools on opting out, said he knew of up to 15 other schools seriously interested in opting out and had received about 450 inquiries from schools.

Mr Straw is today publishing a letter to Mr Baker which attacks the policy on two grounds.

First, Mr Straw asks for assurances that schools will not be offered extra funding as an incentive to opt out. "It would be outrageous if the Government resorted to bribing schools with taxpayers' money to get them to opt out," Mr Straw said yesterday.

The Education Department refused to comment, but Mr Turner said his trust never made promises to schools about future funding on opting out. The Education Reform Act stresses that the revenue income of a school should be unchanged by opting out, but leaves capital funding to the discretion of the Education Department.

Second, Mr Straw argues that schools which opt out when under threat of closure will undermine efforts to remove surplus school places, another Government priority.

Airports experience growing pains

Michael Donne considers options for tackling increases in air traffic

WITH annual UK air passengers of more than 86m expected to double by the end of the century, substantial efforts are being made to improve the overall commercial aviation infrastructure.

However, there is much debate over whether more ought to be done. Is there any way of speeding up the time that it takes to respond to the rapid growth in air transport and avoiding the congestion that thousands of passengers suffer at airports?

Works in hand on passenger terminals and air traffic control facilities as well as on improved road and rail links outside Britain's main airports, are based on forecasts of traffic growth made some time ago. Yet these are already out of date as a result of the rapid acceleration in traffic over the last few years.

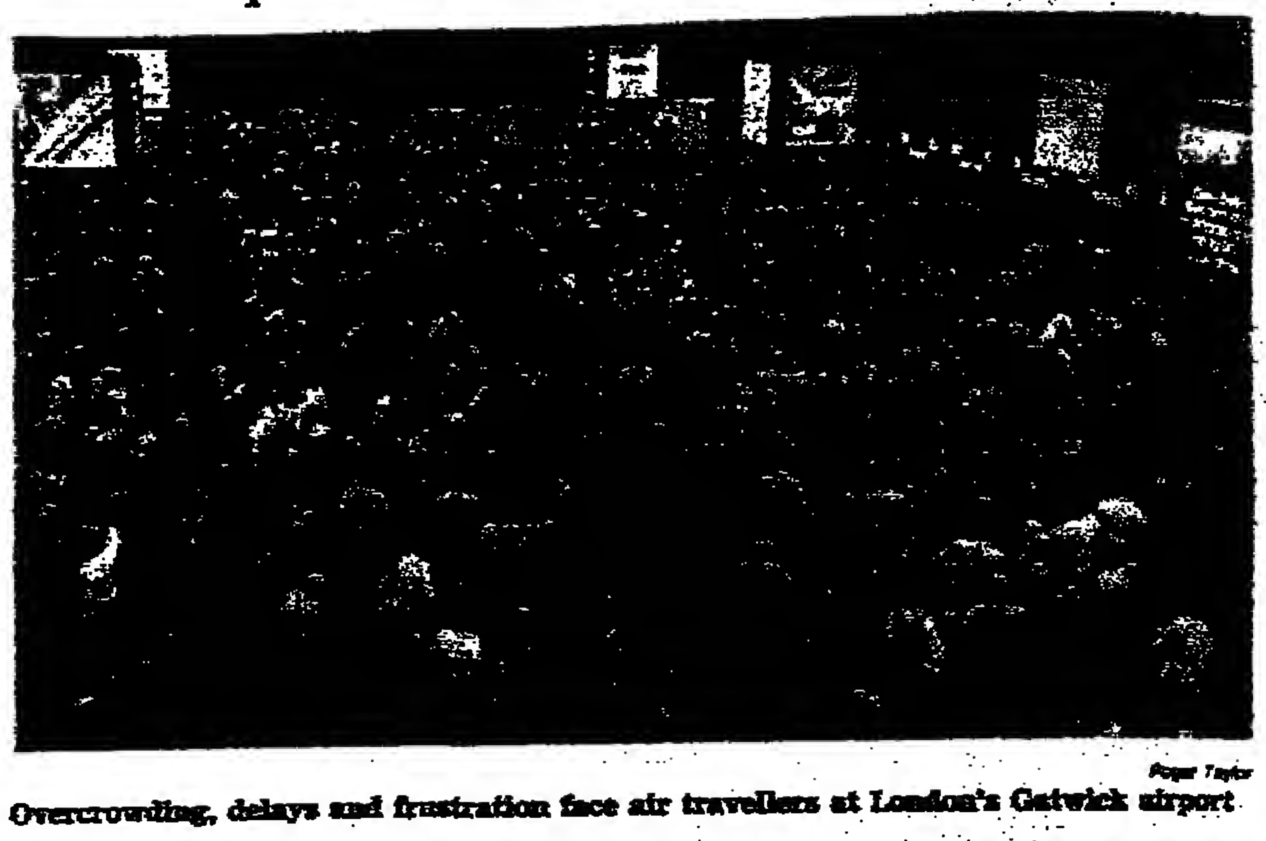
It can take as much as 10 years between the conception of an airport terminal or runway and its entry into service because of lengthy public planning inquiries and construction times. As a result, airports are often strained to bursting point well before new facilities come into operation.

For example, at London's Gatwick, where the £200m North Terminal was brought into operation recently to add capacity of 9m passengers a year, the old South Terminal – designed to handle 16m passengers a year – was handling close to 20m.

In addition to the Gatwick North Terminal, plans for new facilities include the £300m terminal at Stansted, Essex, to enable that airport to cope with 7m to 8m passengers a year against the present 1m; the planned £190m rail link between Paddington, London, and Heathrow; and the £500m investment in new air traffic control facilities.

When added to the Terminal Four at Heathrow, now in operation, and the refurbishing of the airport's Terminal Three, the combined south-east airports should be capable of coping with demand up to the mid-1990s at least.

The debate about what to do for the late 1990s and into the next century has already begun. Mr Paul Channon, the Transport Secretary, has asked the Civil Aviation Authority to study airport needs up to 2005, and a report is expected next July. BAA, formerly the British Airports Authority, is undertaking its own studies for internal planning purposes.



Roger Taylor

Overcrowding, delays and frustration face air travellers at London's Gatwick airport

Various options are emerging. One is a fifth terminal at Heathrow on the site of the Perry Oaks sewage works, capable of handling up to about 15m passengers a year, raising Heathrow's total capacity to well over 50m.

WHICH WAY FOR TRANSPORT?

This is bound to involve a bitter environmental fight not only over the re-location of the sewage works and construction of the terminal itself, but also over the increased strains on the surrounding road and rail infrastructure – especially the M25 and M4 motorways.

Another option is to expand Stansted from 8m to 15m passengers a year, which would require parliamentary approval, followed by a second terminal to lift the figure to 25m passengers yearly on the single runway, requiring another public inquiry.

Possibly, a second runway could be built thereafter raising capacity to perhaps 40m-50m, but that would also involve a fight. The CAA believes another runway will be needed in the south-east by the end of the century and part of its study could well include where it ought and could be sited.

In all this debate about infrastructure, the effect of the Channel tunnel has to be considered. Most experts believe that while it may syphon off some short-haul air traffic to and from the Continent, it will most likely generate its own market, so air and surface links will expand side by side.

The problem is not confined to the south-east. Traffic at regional airports is rising and there are considerable pressures for additional capital spending.

The problem with all these developments is that they tend to be ad hoc, emerging to meet demand as it occurs, often without any reference to an overall national development policy.

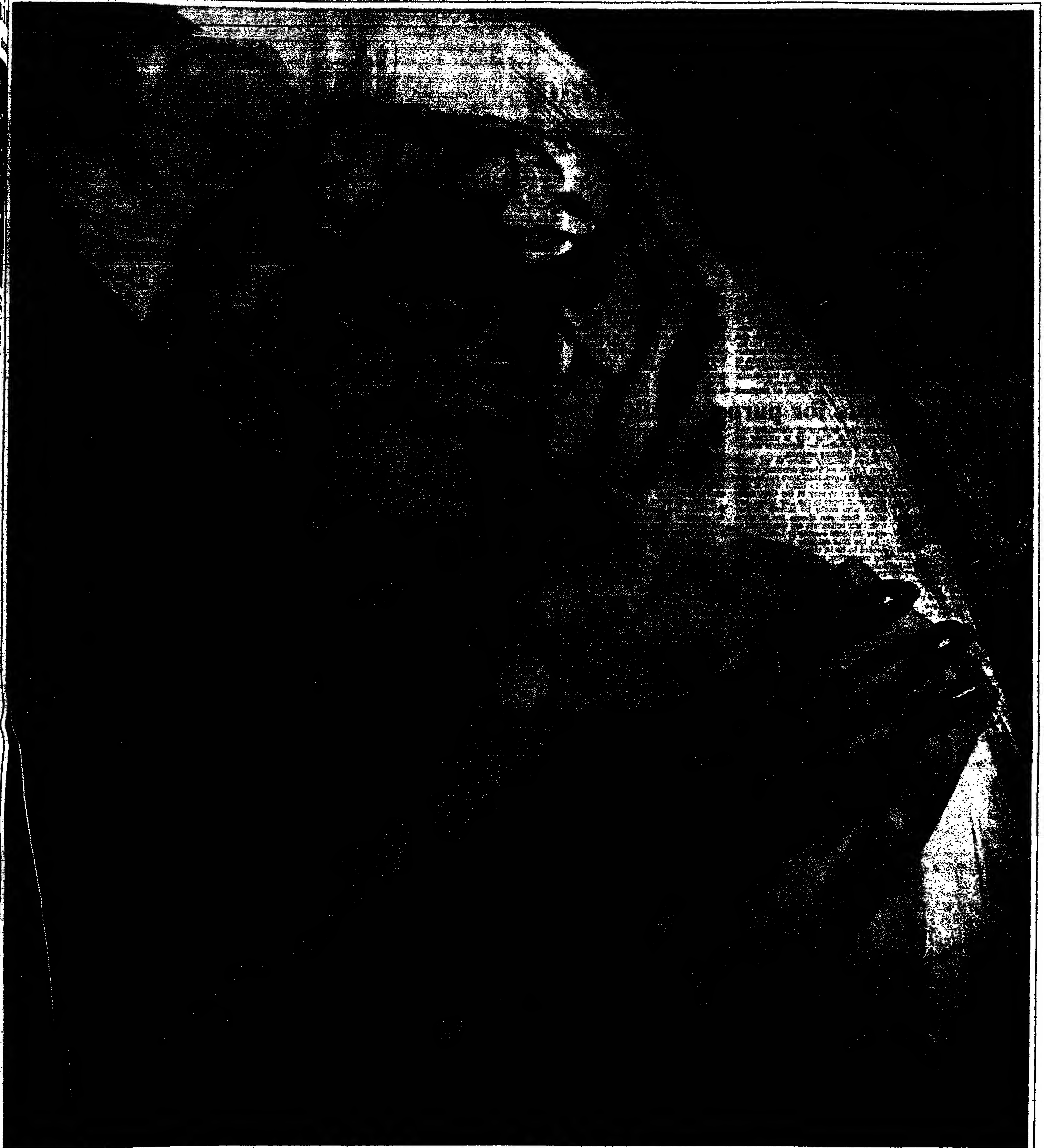
Every airport seeks to expand but not all can grow at the same rate because the pattern of demand varies widely. An airport that can generate an expanding package holiday charter market may not find a comparable growth of business traffic in its immediate area. The result may be that resources could more usefully be spent elsewhere.

Many in air transport believe that the time has come for a global review of the whole long-term planning strategy for UK air transport, against which demand for new facilities can be assessed well in advance so that necessary steps are taken to meet it.

The CAA study for the period up to 2005 may itself be based on too short a time-scale, for it is already clear that whatever it may recommend is not likely to be operational much before that date anyway, given the delays that are experienced in reaching decisions.

It is feared that, no matter what developments may then be under way to meet the needs of the early years of the next century, it will be necessary before the end of the 1990s to plan for the decade or more beyond.

Many believe that a bolder approach, with a longer time-horizon and a more determined effort at cutting out the bottlenecks of public planning inquiries, will become essential if the UK is to keep up with other countries in meeting the challenge of ever-rising air traffic into the next century.



Re-location

Follow the lower cost road

Hazel Duffy explains why companies are breaking free of traditional business centres

Relocation is back in fashion. High labour costs, skill shortages, and high rents in the south-east of England are prompting a growing number of companies to think about moving out lock, stock and barrel, or to locate part of their activities in lower cost areas.

For many companies, the decision to move is one of the most strategic that its management will take. Companies move for a number of different reasons. Cost reduction, particularly for companies moving out of London, is the single most important.

Competition in the financial sector since deregulation in the City has caused companies to look again at their costs, and prompted many of the recent and planned moves.

Most will not have gone very far from the Square Mile. The majority of moves from central London are to locations within Greater London, according to the annual surveys of Jones Lang Wootton, the chartered surveyors.

But that could be changing as companies are pushed further afield to get the staff and space that they want. London weighting is another factor.

"In the past nine months there has been a surge of companies – particularly those needing data processing and clerical staff – looking at Birmingham and Leeds," says Honor Chapman, of Jones Lang Wootton.

The recent decision by Barclays Bank, which was advised by Jones Lang Wootton, to move 1,000 head office jobs to Coventry (half to be recruited locally) immediately aroused the interest of companies which a couple of years ago would not have considered a Midlands industrial city.

The impetus usually comes from top management. Then it is a question of deciding where to go. The relocation bureau of the Confederation of British Industry can advise on locations, and tries to put companies in touch with others that have made similar moves. Or the company might decide to hire management consultants.

"We had a service company come to us recently. It was sitting in the middle of London when theoretically it could have been located anywhere. Most of its business could be conducted by telephone and computer. In practice, the senior people did not want to be too far from London (a very common requirement). We narrowed the choice down to three towns in the east Midlands," says Peter Forrester, partner in the consultancy arm of Price Waterhouse.

Others, like the Bank of England which is moving its registrar's department to Gloucester, and Lloyds Bank which has started transferring head office staff to Bristol, carry out their own research on potential locations.

Most companies want to take key staff, some want to take most of their staff, others to recruit most locally.

Shell Chemicals wanted to take as many as possible of its head office staff when it decided to move out of London. It chose Chester, partly because it is close to Shell's chemicals production, but also because the city can provide housing and other amenities which appealed to senior management.

Other considerations can come into play. Many companies want somewhere within a day return journey to London. Sometimes, the chairman or chief executive manages to put up a case for moving closer to where he lives.

For an overseas manufacturing company interested in Britain, the requirements might be very different. The right site, the availability of labour – trained or to be trained, good communications, access to suppliers and customers, are often the most important.

Carrying through a big move can take two to three years. Price Waterhouse points out that the company must continue to function smoothly during the long transfer period. It may well be necessary to plan compatible computer systems in the two locations.

Perhaps most important is to sell the idea of moving to the staff. Most companies handle this in-house. In the US, about 70 per cent of corporate relocations are handled by outside specialists, and the practice is spreading to the UK. They can be useful in organising the practicalities of staff transfers, arranging visits to the new location, taking over house sales and purchases, and providing bridging finance.

A new survey for Merrill Lynch Relocation found that the main factor inhibiting British employees from moving was fear of not being able to afford to return to the high cost area which their company was planning to leave.

Moves away from London are certain to increase as cost pressures grow, although most big companies retain a presence in the capital. But town and city councils around Britain are not only beckoning London-based companies. The clever ones are already working on companies which moved to the ring of towns around London 15-20 years ago, where they frequently now face the same sort of cost and recruitment difficulties that prompted their move in the first place.

Lloyds Bank opts for purpose-built in Bristol

Three years ago, Lloyds Bank decided to disperse some of its 7,000 head office staff in the City to new accommodation.

Over the past year, around 1,000 have moved to Hay's Galleria, a carefully restored building in the complex around London Bridge. But the bolder move is out of London, to Bristol, where 1,400 jobs (not staff) will go between now and the early 1990s.

The reason for the new locations was simple: money. City rents have gone high enough to deter even the clearing banks from keeping head office staff within its boundaries. Agents quote rental agreements at £60 a square foot in the City. Bristol rents are nearer £14.

Lloyds chose not to rent, but to buy a freehold site at Canon's Marsh, close to the centre of Bristol, where it will benefit from a building designed for modern banking. The first staff have transferred, working in offices taken to bridge the gap.

Lloyds calculates that the pay-back period of the whole Bristol operation will be just two to three years. The difference between office accommodation costs in London and Bristol is the biggest factor.

The availability of the site and the opportunity for a building designed for its needs were key considerations which led to Bristol clinching the Lloyds prize. The city is already an important centre for insurance companies and building societies.

Before deciding where to go, however, Lloyds set about selecting who it wanted to move. Staff were put in categories according to those who it was decided had to stay in the City, those who could move to the City fringe, and those who could be moved further afield. Staff who choose not to move with their colleagues are transferred to other divisions staying in London.

In the first category were staff who needed to be in close contact with the top executives, people working in City market-related activities, those who had frequent meetings with City-based customers, and others for whom contact with the institutions was essential. In the second category were people who needed to be close, but not actually in the City (in practice, the London Bridge location is almost City) – the international division, which had occupied the most inferior accommodation, was moved first across the river. Staff concerned largely with administration – and this includes very senior people – could be moved out of London. The aim, as far as possible, is to move whole divisions, like branch banking, rather than send bits off to Bristol.

Before settling on Bristol, Lloyds studied several other locations, including Birmingham where the clearing bank originated and it has offices already, Peterborough, Newport, and Cardiff. It also looked at locations around the M25, which would have been close enough for at least some staff to commute.

But Lloyds never looked north of Birmingham. Any big company seeking to decentralise will have certain major requirements that must be satisfied. For Lloyds, it was access to London.

"These are head office staff we are moving. They must be able to meet the other head office people regularly, without having to spend hours in trains, and overnights in hotels. Bristol was as far as we could go," says Peter Davey, senior personnel manager.

Another consideration was to choose a place where people could be persuaded to move. Lloyds wanted a nucleus of staff to transfer, which it calculated at half of the staff in the divisions to be moved. Bristol had the right image. Birmingham clearly did not have two years ago. Today, it would stand a better chance.

The size of Bristol was also in its favour. Fifty thousand was thought to be the minimum population to provide the pool from which staff could be recruited locally. The first staff recruited in Bristol are already being trained in London.

About half of the people the bank wanted to move will go to Bristol. For some, the advantages of cheaper housing (although not significantly cheaper), pleasant working conditions, good surroundings, are outweighed by family considerations.

There are pluses and minuses in every move. Those who go to Bristol will see their annual £3,000 London allowance wound down over four years to £298, which is the "large town" allowance. But they get help to move, however, including allowances for furnishings. Most popular is a scheme devised by Lloyds' relocation subsidiary which takes care of selling the house of a member of staff who is re-locating.

One of the biggest deterrents seen by some is that they believe they will be moving away from the action if they leave London – although promotion is likely to be more rapid in Bristol.

"Away from the action is more in the mind than reality," says Davey. "We had some people who moved to Haywards Heath in Sussex. In the early days, they were often found around London head offices. After a little while, they did not bother. They realised it was not necessary."

Scunthorpe attracts Devalit

Gerhard Schmitt, general manager of Devalit, had never heard of Scunthorpe until he joined a group of German businessmen invited by the UK Government to look at various towns around the country.

He arrived in the Humberside town without any of the prejudices that its name conjures up in Britain, to find a pleasant enough place with parks, a golf course, and a lot of new industrial activity. Most important, from his point of view, it was well placed for rapid connections with the motorways linking Humberside with the Midlands and the north.

Family-owned Devalit had grown rapidly in the past five years to become a leading German supplier of injection mouldings to the car industry. It needed to expand its production facilities.

Opel in Germany is one of its big customers. In Britain, Vauxhall is its main outlet. Both figured prominently in the considerations on where the new facilities might be located. Devalit has two plants in Germany, in Wuppertal in the Ruhr, and Elleran, near Hamburg.

Schmitt considered sites around Germany. But pressure came from Opel for Devalit to take over one of its two plants in Antwerp, which would give the company a free factory. Vauxhall was equally keen that Devalit should put an operation into Britain.

Britain won the three-way "beauty" contest, mainly because it is cheaper to employ people in Britain than in Germany and Belgium. Humberside, with lower wage rates and costs than most other parts of Britain, had a particular advantage. And a greenfield site was preferable to an existing, albeit free, factory in Antwerp.

Scunthorpe triumphed for several reasons: good road links to the Vauxhall plants in Luton and Ellesmere port, and to the plants of other car manufacturers, Ford, Rover, and Nissan in the north-east; access to east coast ports (British-made parts will also be shipped to German car makers); the availability of labour in the area; the opportunity to buy a five acre freehold site in an enterprise zone (the company has since bought the adjacent five acre site for offices, which is not in the zone); and the chance to get government regional development grants (no longer available) topped up by selective financial assistance.

The Scunthorpe package was put together for Devalit by Roy Jenkins, then the German-speaking marketing director of Leeds-based Yorkshire & Humberside Development Association, now chief executive of Devalit UK.

In choosing Scunthorpe, Devalit did not have to convince Jenkins that it was a pleasant place to live. It provides plenty of opportunity for his hobby, horse riding. The German parent will send a few technical people to assist in the transfer of technology to the UK plant, but only for a short time. The plan is to set up a British staffed company.

About 100 will be employed in the first year. The factory is expected to go into production in mid-November. The total investment over three years will be £15m. By then, it will employ around 300. Jenkins has secured single union status for the plant with the Transport & General Workers' Union. All staff will be salaried.

Production workers have been recruited locally. The company is investing more in training than if it had gone to the Midlands, where skilled operators are more readily available, but the expenditure has been more than cancelled out by the other financial advantages of the Scunthorpe area.

One of the drawbacks of the north sometimes cited by businessmen is the difficulty of attracting managers. Jenkins has not found it a problem. Management jobs have been advertised in the national press. Applications came from managers based in the south of England, but it just happens that those he has taken on were working mostly in the Yorkshire and Humberside area.

He asked that they live within 30 miles of the plant, however, so a house move has usually been involved. That is not a problem. House prices in the area are among the lowest in Britain, and people have seized the opportunity to trade up.

Jenkins sums it up: "This site is an industrialist's dream."

Our second chance: Prince Charles sounds the alarm

Colin Amery discusses the film shown on television last Friday in which the Prince aired his personal views on architecture

It must be a unique film. The BBC's fortieth birthday present to HRH The Prince of Wales was to ask him to write and present a 75-minute documentary about his personal views on architecture.

When it was shown last Friday, rather too late at night for such a long film, no one was certain what was coming. Should we have expected another swingeing "carbuncle" outburst, another *cri de coeur* on behalf of the over-governed and over-regulated man in the street? Architects were known to be quaking at the thought of an onslaught that might be twice as effective as the Prince's first speech on architecture, which was delivered to the ranks of the profession at Hampton Court Palace in 1984.

A Vision of Britain in fact showed a new face of the Prince of Wales to the nation. He is clearly so deeply concerned about the kind of country he will one day preside over that he has, in the four years since the Hampton Court speech, taken particular trouble to inform himself and to visit as much of the country as possible. Some of the most memorable parts of the film were when he was talking to perfectly ordinary people in their homes, with the camera letting us all see problems that many professionals would prefer to forget.

The visit to the East London post-war tower block where the damp pours into rooms which have been declared unsafe but are still occupied was highly significant. I suspect that if the Prince of Wales were not circumscribed by constitutional conventions he would have liked to draw the moral lessons he so clearly saw when asked to admire London Docklands' new rampant commercial ugliness alongside such appalling housing conditions.

What was the main thesis of this important film? It was something that the Prince has mentioned before – what he calls "the second chance." He proved more than adequately that a horrifying amount of post-war redevelopment, despite a plethora of planning regulations, was both an aesthetic and a social disaster. He felt it necessary to sound the alarm loudly now, because as the country prospers, setting off another building boom we must get it right.

Prima donna modern architects will predictably say that the Prince of Wales only likes the architecture of the past. They will be wrong. He articulated very clearly the qualities that he believes inspire good architecture and design. Architecture should respect nature. It should emphasise the intuitive element in our humanity and respond indigenously where possible to its surroundings. It should be the one art that offers the opportunity for craftsmanship and for the rewarding combination of work with hand and eye. It should not ignore the triumphant tradition of Western architecture both classical and gothic. Above all the film brought to the fore the need that the Prince of Wales feels – and indeed many people feel – that for too long spiritual values have been ignored in the art of architecture and civic design.

New Government offices in Whitehall which were designed by William Whitfield and are admired by The Prince of Wales

It takes a brave layman to appear on the box and talk about God. He felt that "man is more, much more, than a mere mechanical object whose sole aim is to produce money. Above all he has a soul, and the soul is irrational, unfathomable, mysterious.... there is a desire to build in harmony and sympathy with God's creation on this earth." These are not the thoughts of the average modern architect who, sadly, has been trained to emulate the road heroes of the modern movement who believed they had a curious right to impose their creations on a suffering world.

The things the Prince criticised in the film will ensure that his views are supported. He tackled the retail explosion, begging for higher architectural standards in new shopping centres, and made a plea for the careful treatment of old town centres, deploring the spread of uniform and badly-designed shop signs. He looked at the potential explosion of residential development in the countryside and made a constructive plea for the planned village, drawing attention to past achievements in building model villages. He tackled low standards in public housing and deplorable inner city developments. Proposals for the second new centre of Birmingham he described as an "unmitigated disaster."

It was inevitable that he should continue to be anxious about the future of the capital. He clearly deplored the design of Canary Wharf; the film allowed the American architect Cesar Pelli, who is responsible for the giant tower block of offices, enough time to sound completely unconvincing about the need for such a monster.

It was the scale as well as the quality of new buildings that worried him – we may never recapture Canaletto's vision of London but something must be saved. As the Prince said, in words echoed by the public in the film, what is the point of conservation areas if the listed buildings in them can be pulled down.

Describing James Stirling's proposals for a site in Poultry, looking like "a 1930s wireless" he highlighted the insensitive siting of new buildings in the City. Of course Paternoster Square is crucial to the Prince's views and what seemed to concern him particularly here is that for such an important site there seems to have been so little consultation with the public. Even the Paternoster Committee, headed by the chairman of the Royal Fine Art Commission, has shut up shop because it seemed unable to be able to bridge the gap between what the Prince called "human and inhuman architecture."

None of the Prince's critics can accuse him of not liking anything new. He gave an impressive list of the architects he likes: John Simpson, Jeremy Dixon, William Whitfield and Michael Hopkins. He also pointed out that he is a property developer too, through the Duchy of Cornwall. He was clearly willing to attempt some model developments in the Scilly Isles and Dorchester, which will be interesting to see. In London, the Duchy is taking care with its upgrading of flats and the Prince insists on more consultation with tenants.

What may fairly be asked is why should the Prince of Wales have any influence in architectural matters? I suggest that he has rightly seen that architects do not listen to ordinary people and that they do not brook discussion and criticism easily. The film ended with these words: "My chief object has been to try and create discussion about the design of the built environment; to rekindle an alert awareness of our surroundings; inspire a desire to observe; but most of all to challenge fashionable theories of a professional establishment which has made the layman feel he has no legitimate opinions."

The Prince of Wales used television well to make architecture real again to all of us and no thinking architect could possibly quarrel with such an incentive to discussion. In fact the Prince of Wales has become not the friend of any particular architect but a genuine, sensitive friend of architecture.

That can only be good for the nation.

Rasputin at the City Opera, Cesare at the Met

Andrew Porter reviews the opera scene in and around New York

The City Opera has mounted a new work, *Rasputin*, words and music by Jay Reise. Reise makes some claims for "relevance" by referring to modern "evangelists" – Swaggart, Pat Robertson, Graham – and to White House astrology. Lenin's speech about the necessity for revolutionary violence and terror, ringing from loudspeakers, punctuates the second of the two short acts. And "when Alexandra sings Nicholas a tonal lullaby after he suffers an atonal paranoid hallucination, she is not only comforting him, but symbolically putting to sleep all of the 19th century and the Russian Empire."

It's not an unpromising idea for an opera, but what emerges seems trivial, incoherent and ineffective. The music goes through theatrical motions, doesn't take fire. The dramaturg (Reise acknowledges the help of Frank Corsaro, who produced) seems to count on *Oh Calcutta!* "shock" effects to eke out a sketchy presentation of history. At the close of the first scene, a prayer meeting, the worshippers strip off their clothes and simulate copulation. The "hit number" is Prince Yusupov's "Bébé d'amour" in which Henry Price displays shapely legs – high-heeled, silk-stockinged, can-can-gartered.

The performance was excellent: a trim, deft production, John Cheek doing all he could with the title role, and John Garrison doing likewise with Nicholas. But they didn't have much to work with. Smaller parts were keenly taken. Christopher Keene conducted.

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The first new production of the Met season is a remounting of the English National Opera *Giulio Cesare*, which has also been seen in San Francisco and Geneva. It was a bore: a merely decorative affair (produced by John Copley) devoid of any dramatic interest or excitement. Well, Jeffrey Gall put a spark or two into Ptolemy and Martine Dupuy, the Sextus, also sang lines as if they meant something. Tatiana Troyanos in the title role was spiritless, heavy, dull, and seemed to find the music a strain. She delivered Caesar's last aria, the bravura "Quel torrente," with her eyes cast glumly down at the prompt box, as if reading the music from a teleprinter there. Kathleen Battle, the Cleopatra, was exquisite in a way: daintily exact, sweet of tone. However, it was a tiny performance, which scarcely carried across the footlights. Sarah Walker, the Cornelia, created needless difficulties for herself by essaying high decorations that lay beyond her effective reach.

Although nine arias (three of Sextus', two each of Ptolemy's and Achillas', one each of Cornelia's and Cleopatra's), much recitative, and most of the final duet were omitted, the show lasted not much short of four hours. Trevor Pinnock, conducting his first opera, showed small feeling for the theatre.

*

PepsiCo Summerfare, by Christopher Hunt and held on the Purchase campus of the State University of New York, an hour's drive or so from the city, is America's leading arts festival. The university has four excellent theatres, opening off the same foyer, and several other performing spaces. International dance and drama were, as always, well represented this year. The operas were *Le nozze di Figaro*, produced by Peter Sellars, and from Frankfurt, John Cage's *Europeras 1 and 2*.

Figaro is Sellars's third Mozart-Da Ponte production at Purchase. (All three are to be revived next summer.) He set *Così* in a diner, with Alfonso as a troubled Vietnam veteran; and *Don Giovanni* in drug-ridden New York streets. *Figaro* plays high in the Trump Tower. A big Frank Stella adorns the walls of the Almavivas' bleak, expensive apartment. Figaro is a doorman and plans, rather improbably, to live with the maid Susanna in the laundry room. A vertiginous balcony provides Act 4 with images of abyss and precipice. (One night Basilio fell into the orchestra pit.)

It is hard to explain why Sellars stagings are quite different from the run-of-the-mill updated productions that blight the modern stage. Reasons are his accurate observation of human behaviour, his accurate and loving attention to the music and his masterly, eclectic command of stage imagery that may run from Noh, through realism, to wittily-employed TV cliché.

Sometimes he goes too far but excesses due to exuberance or to passionate concern are easily responded to. His work is not to be confused with the mindless, modish sub-Berghausy that often passes for modern staging. It is intelligent, disciplined and powerful.

These Mozarts are given with a largely Boston-based team, including Susan Larson (Fiordiligi, Cherubino, also Cleopatra in the famous and now much-travelled *Cesare*), Lorraine Hunt (Elvira), Frank Kelley (Ferrando, Basilio), James Maddalena and Sanford Sylvan (Nixon and Chou-en-lai, Guglielmo and Alfonso, the Count and Figaro). They are arresting, cogent artists, thorough musicians, accomplished singers. Sometimes one yearns for more conventional beauty of tone (though Hunt's soprano is radiant and Sylvan's bass-baritone is beautiful). However, it is better to hear Mozart's music brought to life than blandly vocalised at the Met by the Dame Kiri and co. Craig Smith conducts, with a loving, sensitive hand.

Sellars' next venture is *Tannhäuser*, for the Chicago Lyric, this month.

Europeras was described as the most expensive production ever staged by the Frankfurt Opera. A large cast sings (not at pitch or in tempo) a variety of standard arias, accompanied by snatches of instrumental lines from other operas. Actions, lighting cues, props and scenery (dozens of screens showing, in whole or in part, composers, singers or animals) lead independent lives. Random operations – Cage used a computer programme simulating the workings of the I Ching – ensure total irrelevance. In Frankfurt, the show had to be moved into a smaller theatre when the Opera House burned down; in Purchase, the organ (the main SUNY theatre has a large Flenthrop) and a more complex lighting plot were used for the first time. The result wasn't offensive – just a silly old muddle.

At a pair of concerts, the festival orchestra played all Haydn's "Paris" symphonies, under Smith. *Ben Hur* and *Greed* were screened in splendour while Carl Davis conducted a full symphony orchestra (plus the mighty Flenthrop) in his scores for those pieces. A London Sinfonietta weekend was two days of evening concerts, and morning-and-afternoon open rehearsals, talks, informal discussions, and brief recitals (George Benjamin played his piano music, John Wallace played the Davies Trumpet Sonata, Paul Crossley played Tippett). In between, composers, artists, and audience mingled on the SUNY terraces. In excellent "Sinfonietta highlights" programmes, conducted by Paul Daniel, Birtwistle's *Carmen Arcadiae* and *Silbury Air* and Nigel Osborne's *Stone Garden* were outstanding.

Among New York opera-lovers the Amato Opera is a cherished institution. With the participation of unknown young singers and a scratch orchestra of varying dimensions, under the direction of the enthusiastic Anthony Amato, this courageous little group has been presenting both repertory works and rarities to a devoted public for 40 years, usually in a tiny theatre on the Bowery – a very far cry indeed from Lincoln Center.

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For its most recent offering, the Amato moved uptown to the Marymount Manhattan Theatre, a school auditorium with excellent acoustics, comfortable seats and rules against selling food (hence none of the Sicilian sweets usually available in the house on the Bowery).

The loyal audience duly moved, too; and the four performances were well attended. There is a family atmosphere about the Amato experience. Many members of the public seem to know one another and even strangers converse cordially from row to row.

In this case, there was much to talk about, since for everyone the work being given was unfamiliar. Antonio Carlos Gomes (1836-1896) is the national composer of Brazil, though most of his career was Italian and his mature operas were all written on Italian texts (some by Ghislanzoni, the poet of *Aida*). His Italian premières date from the 1870s and today the operas are interesting to hear, since they afford an idea of what was going on in Italian lyric theatres between Verdi's apparent silence after *Aida* and the emergence of Puccini 20 years later.

In *Lo schiavo*, conceived during a stay in Brazil in 1880, Gomes tried to introduce some folk-themes, in keeping with his subject – the liberation of the slaves. And, in fact, some pages of the opera have an exotic flavour, alternating with other pages of exuberant Italianate lyricism. The vocal writing is tuneful, impassioned; and the music is constantly enjoyable. The libretto, too, has a certain originality (it must have seemed daring a century ago, with its miscegenation theme).

Ideally, *Lo schiavo* should be seen and heard in a big house with a grand cast, full orchestra, lavish sets and costumes but the Amato Opera – which has given Boito's *Nerone* in its 100-seat Bowery theatre – ignores such matters and yet manages to give a more than adequate idea of the work. The small chorus fills the small stage, the colourful sets suggest greater spaces; and the inexperienced singers substitute total commitment for stage experience.

Maestro Amato provided a no-nonsense staging and conducted his valiant players (the winds were especially good) with verve and, at the same time, with supportive attention to the stage and singers. There were two casts; the second – which I heard – revealed a promising young coloratura, Mary Maguire, and a sweet tenor, James Landers. How they would sound in a bigger hall I cannot say but in the Marymount auditorium they were engaging and convincing. The others were always adequate, if not exciting. Here it was the piece that mattered, and the North American premiere of *Lo schiavo* can be counted an authentic success.

Phedra

CITIZENS THEATRE, GLASGOW

When Philip Prowse directed Glenda Jackson as Racine's *Phedra* at the Old Vic in 1984, the leaden lassitude of the doomed queen was dressed in robes of glistening opulence. And the arrival of Theseus to twist the knife in her wound of incestuous passion was a signal for splenetic tumult.

Returning to that same magnificent translation by Robert David MacDonald, Prowse has completely re-cast the tragedy in a mould of stark, restrained classicism. The costumes are all black, the tunics of Theseus and Hippolytus buttoned with Prussian severity to the neck.

The dresses, long and full, are stiffly satinate, but with crucial variations. Phedra will unbutton slightly at the bosom as the floodgates of her passion burst open. Oenone, the confidante, remains swathed in Oriental veils and pleats, while Johanna Kirby's lank-haired, muted Aricia wears the uncluttered floor-length shift of a political prisoner.

The Citizens' is undergoing structural alterations to the foyer and frontage, so this autumn's season has been played in a makeshift auditorium built on the stage itself, with room for 277 customers piled high on scaffolded seating wedged between the safety curtain and the back wall. However, there is nothing makeshift about Prowse's production.

Surrounded on four sides, the performance has the clinical intensity of a diagrammatic experiment. Four ornate sword cabinets and eight red chairs mark off the arena. Actors materialise, almost, from the blackness and the action is overhung by a great black swagged ceiling with a picture frame border and a hint of a cupola through which all vitality and sunshine have escaped.

The five acts are played without interval, each prefaced by a few dread blows of Japanese percussion. Jane Bertish's strikingly youthful Phedra, crop-haired and aghast, is clearly in the final stages of a poisonous dementia, blood curdling in her throat, horror staring from her eyes. The role is played aggressively and powerfully on the front foot. While Phedra has let go, the priggish object of her attentions, Hippolytus (Tristram Wymark), and his father Theseus (Robert David MacDonald), are clearly determined to hold all emotion in check.

When they crack, too, tragedy is unleashed. The Old Vic production counterpointed the speeches with a soundtrack obbligato of crashing waves and cawing gulls, warning us of the dangers along the Troezene coastline. And Theramenes's account of Hippolytus's grisly end was prefaced by the unforgettable visual coup of his horse slamming down onto the stage.

All that, save a few preparatory squalls of wind, is now gone; Theramenes (Tristram Jellinek) fluting with dispassionate melodiousness in a frozen void.

The Old Vic version was more exciting, this more chilling. To say I preferred the first is not to say I do not admire, and admire quite a lot, the second.

Prowse has pulled his characteristic trick of making great drama both stately in its own right and bleakly, unpatronisingly, attractive to contemporary audiences.

The unchanging pleasure is the translation, which bravely takes on the challenge of Racine's rhyming alexandrines, a metre usually thought inimical to Englishing, and provides a witty, plangent and idiomatic equivalent more truly suggestive of the original than any other version I know.

Michael Coveney

ARTS GUIDE

October 28-November 3

Music

London

City of London Choir with the City of London Sinfonia. David Cashmore conducts Handel, and Mozart, with Lynne Hirst (soprano). Queen Elizabeth Hall (Mon) (928 3191 cc 928 8800).
The Bartok Solti Series with the London Philharmonic Orchestra. Zoltan Kocsis (piano), Klara Takacs (soprano), and Aage Haugland (bass). Royal Festival Hall (Tue) (928 3191 cc 928 8800).
Contemporary Music Network with the London Sinfonietta. Diego Masson conducts works by George Benjamin, Colin Matthews, Judith Weir and Robert Saxton. Queen Elizabeth Hall (Tue) (928 3191 cc 928 8800).
The Reluctant Revolutionary with the Goldsmiths Choral Union. Brahms' Chorale Preludes. Royal Festival Hall (Wed) (928 3191 cc 928 8800).

Paris

Ensemble Mosaiques with Christophe Coin conducting Bach, and Haydn. Théâtre des Champs Elysées (Mon) (47.23.36.27).
Collegium Musicum of Aquitaine conducted by Michel Moureau. Edson Elias, (piano). Beethoven. Salle Pleyel (Wed) (45.63.88.73).
Vladimir Feltsman, piano. Schubert, Schumann, Mussorgsky. Théâtre Des Champs Elysées (Wed) (47.23.36.27).
Orchestre de Paris and the Ensemble Intercontemporain, conducted by Pierre Boulez and Daniel Barenboim as conductor and piano soloist. Schoenberg, Berio, Debussy. Salle Pleyel (Thur) (45.63.88.73).

Munich

Munich Philharmonic Orchestra conducted by Wolf-Dieter Hauschild with Arleen Auger (soprano). Mozart, Brahms and Denissow. (Wed) Philharmonie im Gasteig.

Berlin

Jazz Festival 88, the George Gruntz Concert Jazz Band, guests: John Scofield, Phil Woods, Dino Saluzzi and Franco Ambrosetto (Wed) Philharmonie.
Jazz Festival 88, Hank Roberts Black Pastels, Art van Damme, Buell Neidlinger's Stringjazz. (Thur), Philharmonie.

Amsterdam

Concertgebouw Orchestra, conducted by Riccardo Chailly in Verdi's Requiem, with vocalists Araxia Davtian, Tamara Sinyavskaya, George Gray and Paata Burchuladze (Thur).

Utrecht

Utrecht Oratorio Society, Dvorak, Verdi, Berlioz (Wed). Recital Hall.

Rotterdam

The Rotterdam Philharmonic, conducted by Valeri Gergyev, with Paul Crossley, piano: Liadov, Stravinsky, Tchaikovsky. Recital Hall (Tue to Thur) (413 2490).

Vienna

Wiener Bachsolisten, conductor Ernst Wedam. Beethoven, Schubert. Musikverein (Fri).
The Chamber Orchestra of Europe, conductor Claudio Abbado. Ligeti, Rihm, Haydn. Mozartsaal, Musikverein (Fri).
Wiener Symphoniker and State Opera Choir, conductor Nikolaus Harnoncourt, soloists, Edith Gruberova (soprano), Thomas Hampson, (bariton), Brahms. Konzerthaus (Tues).
Herbert Gasser, organ recital. Bach, David. St Stephen's Cathedral (Wed).
Alfred Brendel, piano recital. Mozart, Brahms, Liszt, Beethoven. Konzerthaus (Thur).

Rome

Teatro Olimpico: Mozart's quartet in f major, with oboe and clarinet in e flat major with french horn and Mendelssohn's octet in E flat major played by young Italian soloists (Wed) (3965861).
Auditorium in via della Conciliazione: Peter Shneider conducting Dvorak's piano concerto in G minor with pianist Justus Frantz and Bruckner's 7th symphony (Sat, Sun, Mon and Tues) (6541044)

Milan

Teatro alla Scala, Carlo Maria Giulini conducting Mahler's "Das Lied von der Erde" with tenor Francisco Araiza and mezzo-soprano Brigitte Fassbaender, and Schubert's 4th Symphony (Thur and Fri) and (Sun) a recital by baritone James Morris, accompanied by Robert Kettelson, singing Handel, Mozart, Richard Straus and J. Ibert, and (Thur) Witold Lutoslawski conducting his own works, including the first performance of a new piano concerto. (80.91.26)

New York

Philadelphia Orchestra, conducted by Riccardo Muti, Kyung Wha Chung (violin). Dvorak, Stucky, Ravel. Avery Fisher Hall (Wed) (874 6770).Vienna Philharmonic, conducted by Leonard Bernstein, Wolfgang Schulz (flute). Beethoven, Bernstein, Brahms. Carnegie Hall (Tue) (247 7800).
New York Philharmonic, conducted by Raymond Leppard, Ida Haendel (violin). Handel, Dvorak, Britten. Avery Fisher Hall, Lincoln Center (Tue).
New York Philharmonic, conducted by Zubin Mehta, Joaquin Achucarro (piano). Mozart, Rachmaninoff, Beethoven. Merkin Hall (Thur) (799 9595)
New York Philomusica, directed by Robert Johnson. Haydn, Zelenka, Villa-Lobos. Kaufmann Hall (Mon) (362 8719).

Washington

National Symphony Orchestra, conducted by Rafael Frühbeck de Burgos, Christina Ortiz (piano). Falla, Rachmaninov, Beethoven. Concert Hall, Kennedy Center (Thur) (254 3776)

Chicago

Sydney Symphony Orchestra, conducted by Stuart Challender, Shura Cherkassky (piano). Vine, Saint-Saens, Shostakovich. Orchestra Hall (Wed) (435 8122).
Chicago Symphony Orchestra, conducted by Giuseppe Sinopoli. Strauss, Bruckner. Orchestra Hall (Thur) (435 8122).

Tokyo

Czech Philharmonic Orchestra, conducted by Vaclav Neumann. Mahler 9th Symphony (Mon). Beethoven, Dvorak (Thurs). Suntory Hall (505 1010)
Classical Japanese Music. Fukuda Teruhisa (shakuhachi). Ongaku no Tomo Hall (Tues) (235 2115)
Garrick Ohlsson (piano). Schubert. Tokyo Bunka Kaikan, Recital Hall. (Wed) (289 3999)
Japan Philharmonic Orchestra, James Loughran conducts with Kyoko Takezawa (violin). Kabalevsky, Prokofiev, Shostakovich. Tokyo Bunka Kaikan. (Thurs) (234 5911)

Monteverdi Choir

ELIZABETH HALL

The Monteverdi Choir is now at the threshold of its silver jubilee season, which it will be celebrating with performances of the Vespers by its titular composer in St Mark's, Venice, and Brompton Oratory next year.

In the past it has invariably been the more extrovert and "public" Baroque works, most notably the operas and oratorios of Handel, that have elicited the most inspired music-making from this group and it is on those that they have founded their reputation as arguably the most technically dazzling of all the early music choral groups. However, on Thursday, for the opening concert of this season, they turned to the less-colourful figure of Giacomo Carissimi.

This Italian 17th-century master, though the author of a massive body of music, is remembered today largely for his pioneering work in oratorio. It was the two most famous of these works – *Jephte* and *Jonas* – which formed the backbone of this programme and the burgeoning dramatic spirit which Carissimi was bringing to the art-form could easily be appreciated, even if these performances were not always as keenly dramatised as one might have wished.

In each oratorio the music-making, under the direction of John Eliot Gardiner, lit up in one of the finest passages. In *Jonas* this was during the long recitative-arioso for the title-role, where the tenor Mark Tucker gave text and music alike a strong emotional commitment; while in *Jephte* the best was reserved for the marvellous choral ending, much admired and even plundered by Handel, with the Monteverdi's choral forces at their most eloquent.

Elsewhere, there was pure and beautiful singing without much drama (soprano Ruth Holton) and keen characterisation without the desirable evenness of vocal emission (Nigel Robson as Jephte and, to a lesser extent, Stephen Varcoe).

Perhaps the best overall performance came in the less well-known *Judicium Extremum*, a piece full of elaborate musical devices and antiphonal writing of a kind that seems to call out for St Mark's itself.

In this, as in a group of pieces by the Bassano family, the choir were joined by His Majesties Sagbutts and Cornetts, who provided lively instrumental light relief.

Richard Fairman

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Monday October 31 1988

'Helping' Mr Gorbachev

A YEAR ago Mr Donald Kendall, the head of PepsiCo, predicted that within two years Mr Gorbachev's economic reforms would produce chaos in the Soviet Union because the plant managers to whom decision-making powers were being devolved had no experience of or appetite for taking decisions.

At that point, Mr Kendall said, Western expertise and Western capital should come to the rescue, because it was in the West's interest to see Mr Gorbachev succeed. A leading Soviet economist - an advocate of economic reform - was asked to comment on this prediction. "I think one year will be long enough," he said. It seems he was not far wrong. Perhaps fully-fledged chaos is still in the future but already, there is creeping inflation, a shortage of investment capital which has led the Council of Ministers to authorise state enterprises to sell shares and the finance minister to predict the opening of a stock market, and a great deal of confusion generated by the piecemeal nature of the reform. Mr Gorbachev is not begging for Western help - not yet, anyway.

Lines of credit

But the Soviet economy's appetite for Western goods and technology is clearly growing again, and the Soviet authorities seem to have become less squeamish than in the recent past about opening lines of credit to finance such purchases. West European banks are happy to oblige, and West European export credit authorities have no qualms about providing guarantees: the Soviet Union's credit rating, unlike that of most of its East European satellites, is good.

There is even loose talk of a "Marshall Plan" to put the Soviet economy on its feet. It would be ironic indeed if this were adopted, since it was Stalin who chose to exclude the Soviet Union and Eastern Europe from the scope of the original Marshall Plan, which itself would not have worked had Western Europe not had the human resources to make it work - 250m "busy, active, intelligent people", as Lord Franks has said - and, above all, had it not retained a free economic system in which those people had an incentive to produce. Late in the day Mr Gorbachev now wants to introduce such a system in the Soviet Union. Or does he?

Contradictions

Many of his own statements and those of his advisers suggest that he does, but they are obliged to contradict themselves almost in the same breath by their commitment not to abandon "socialism". Perhaps they could fudge it by adopting the Scandinavian brand of social democracy, were it not for their parallel commitment to perpetuate the dominance of a single Communist Party, from which derives their only mandate to govern the country. What function will be left to this party, and what means of control, if central direction of the economy is really abandoned? Until that question receives a much clearer answer, Western powers would be most unwise to embark on any kind of "Marshall Plan" for the Soviet Union.

The experience of Eastern Europe, and of Latin America, is there to show what damage even "normal" commercial credit can do if it means throwing money at an over-regulated economy which lacks the capacity to make productive use of it. As Sir Geoffrey Howe said in his lecture at Oxford last Thursday, "help" of the wrong kind will not solve Mr Gorbachev's essentially internal problems, and could damage our interests. It might indeed remove some of the incentive to make necessary changes.

Given that one of those necessary changes is the transfer of resources from the military to the civilian sector, it would be doubly unwise for the West to offer such "help" unless or until the promised Conventional Stability Talks have produced agreement on a genuine balance of forces in Europe. Meanwhile Western credit guarantee authorities should keep an eagle eye on the scale of Soviet borrowing, to make sure that the world does not saddle itself with yet another unmanageable debt problem for the 1990s.

An EC fortress for cars

THE CURRENT hullabaloo over Japanese car imports to the EC underlines the difficult choices facing the Commission in the automotive sector in the run-up to the single market in 1992. But Brussels should be careful to avoid making an already bad situation worse.

The origin of the EC's car problem goes back to the diverse arrangements for limiting the market share of Japanese models on national European markets. Through quota arrangements of often dubious legality under international trade law or the EC's competition rules, Japanese cars are scarcely seen on Italian and French roads, while the UK restricts them to 11 per cent of its total market.

If the frontiers to automotive trade were to come down in 1992, these restrictions should, in principle, become unenforceable. Cars could be freely imported into the open markets of Benelux and West Germany and shipped to protected markets next door.

To get round the resulting political problem, the EC has been considering a Community-wide voluntary export restraint (VER) on Japanese cars, ostensibly as a transitional measure. It hopes that such a restraint could be operated voluntarily by Japanese manufacturers themselves. In return they would gain access to hitherto protected markets and the prospect that restraints would be phased out in time.

Cogent arguments

Such a solution might seem convenient. Technically, it is not illegal under the General Agreement on Tariffs and Trade (Gatt) - however contrary to its spirit - and it can also be argued that overall levels of protection in the EC would not increase. Yet there are cogent arguments against this option.

First, there is a question of principle. The EC would be conniving at the kind of discriminatory trading arrangement that it and its partners in the Gatt claim they would like to eliminate.

Second, even if the new VER is set so as to match the current level of imports, the overall level of EC protection could still increase. At present, in open markets such as West Germany, car prices are influenced by an unrestricted level of Japanese imports. That influence spills over into the more protected markets. (Crudely, Japanese cars sold in West Germany crowd out Fiats or Volkswagens - leaving potential European output to be diverted to France or Italy.) But an EC-wide VER would stamp out the remaining free European car markets, allowing European carmakers to set prices everywhere in the knowledge that Japanese imports were limited - and also eliminating the "spillover" competition.

Polite term

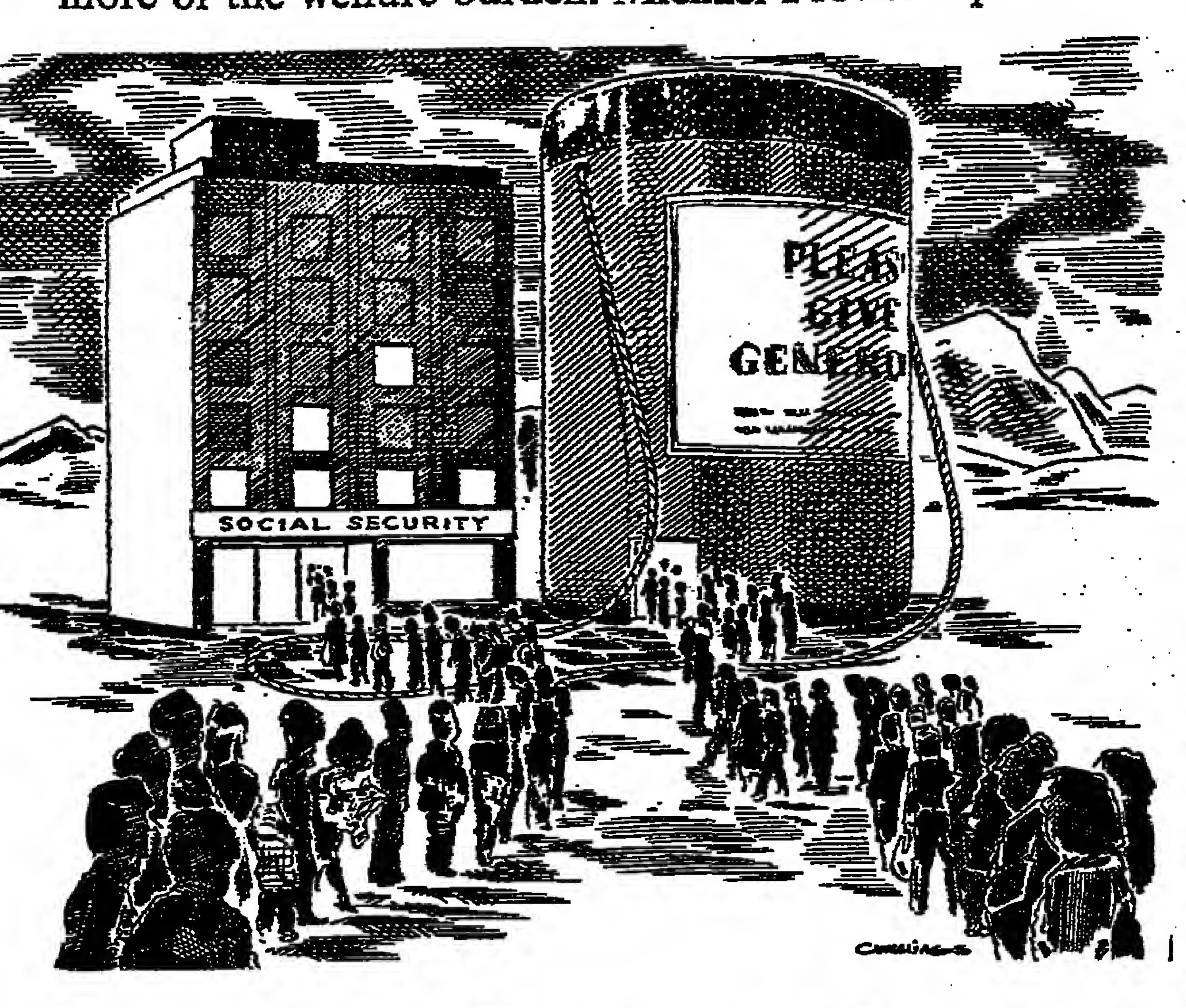
Third, exporters are among the main beneficiaries of VERs, a VER being no more than a polite term for an export cartel. Protected EC producers would, it is true, be able to charge higher prices than otherwise, but this could deprive them of an adequate incentive to adjust, at least unless protection were known to be temporary. In practice, however, it would be almost impossible to make such an EC-wide VER temporary.

A better alternative than an EC-wide VER would be to leave national quotas in place and allow them to wither away under the logic of the 1992 programme, which is intended to work through competition among national regulatory regimes. So, countries that now operate the quotas would simply be denied the ability to reinforce them through the special arrangements that currently allow them to keep out Japanese cars imported through other European countries.

There would be no dramatic changes in market share in the short term. Car importers need to build up distribution and servicing networks before their credibility with the public is assured. But notice would be served on the protectionist countries that their restrictions are under a time limit. The need for industrial adjustment would become more urgent, consumers in currently unprotected markets would continue to enjoy freedom of choice and the existing undesirable quotas would wither on the vine.

A new dependence on charity

The UK Goverment wants the private sector to shoulder more of the welfare burden. **Michael Prowse** reports



The Thatcher Government is trying to promote a shift from public to private welfare. The growth of public welfare programmes is being restrained even though tax revenues are buoyant. As a *quid pro quo*, ministers are vigorously promoting private giving and developing the theme of the "active citizen".

Individuals, runs the argument, should accept more responsibility for solving the social problems that surround them. They should rely less on the tax-financed services of local and central government. The largest obligations, moreover, fall on those who have gained most from the tax cuts and prosperity of recent years.

At first sight, the policy seems eminently sensible. Few people are likely to denounce charitable giving or to argue for the "inactive citizen". Mrs Thatcher's government has privatised much of state industry: what could be more logical than that it should now privatise state welfare?

So far the policy is in its infancy. The creation earlier this year of the "social fund" is perhaps the most controversial step so far taken. Benefit recipients once had an entitlement to grants for one-off items like beds and cookers. Now they have to apply for a discretionary loan. Claimants judged undeserving can be told to turn to local charities.

The promotion of charity, however, *is catching on in other areas*. In a recent report, Sir Roy Griffiths, the Prime Minister's special adviser on health, suggested that voluntary agencies, under the overall supervision of local authorities, should play a larger role in community care.

Lord Chilver, chairman-elect of the new Universities Funding Council, has argued that students should borrow to meet the costs not only of maintenance but also of tuition. "We want charity, real charity, for those who genuinely can't afford to go." Some of this would be funded directly or indirectly by the state but the needy would presumably also be encouraged to approach private charitable foundations.

How big a shift towards private welfare is feasible? The answer is that nobody knows. Victorian philanthropists would have been astonished by the growth of public welfare in postwar decades. We may be equally surprised by the future expansion of the voluntary sector.

Projections are difficult not least because reliable statistics on voluntary activity are so scarce. There are 161,000 registered charities and probably at least a further 200,000 other voluntary organisations. The sector is extraordinarily diverse. It includes huge fund-raising bodies like Save the Children, tiny and moribund local charities, housing associations, co-operative societies, independent schools and a host of pressure groups.

The Charities Aid Foundation (CAF) reckons that the total income of registered charities was around £12.6bn in 1985 - or 4 per cent of gross domestic product. But this figure, which includes the income of many fee-paying schools, must be treated with caution: it was arrived at by grossing up the income of a relatively small sample of charities.

The Central Statistical Office has detailed information on minute segments of the public and corporate sectors. Amazingly, however, it is unable even to guess at the size of the voluntary sector. Figures on the income of non-profit-making bodies are grossly misleading because they are based mainly on "unrequited" expenditure by individuals - in other words pure donations. Fees and charges and other "requited" payments are not measured. No effort is made to present a comprehensive statistical analysis of the voluntary sector.

The Government has so far sought to boost voluntary effort by a combination of moral persuasion and modest tax concessions. Such policies are unlikely, of themselves, to do much to enlarge the voluntary sector. According to CAF figures, fund raising and donations account for only 15 per cent of registered charities' total income. The bulk comes from fees, investments and statutory grants.

Personal giving is running at only around £7.5bn a year, or less than 1 per cent of households' disposable income. Companies are reckoned to give only about £200m. The 70 per cent real increase in personal giving since 1980 looks impressive, but has to be seen in the context of a sharp decline in donations in the late 1970s. CAF estimates that charitable donations have increased by less than 2 per cent since 1975.

Voluntary bodies get considerably more support from the public sector than they do from individual and corporate donors. In 1985/86, the sector received about £2.6bn in tax concessions and grants. In recent years, the Training Agency (formerly the Manpower Services Commission) has probably been the single most important source of new money.

Many voluntary organisations argue that government policy towards the non-profit sector does not reflect the complexity of its funding arrangements. There is little logic for example, in exhorting individuals to give more generously if public sector support is simultaneously reduced - especially when the latter is quantitatively more significant. Yet such giving with one hand and taking with another occurs routinely.

The voluntary sector is ignored in the formation of policy. The National Council for Voluntary Organisations points out that policy makers rarely acknowledge the work of the voluntary sector in their white papers, manifestos or strategy documents. It complains that non-profit bodies are "taken for granted and left to fill gaps by default rather than design."

The lack of consultation and joint planning seriously undermines the contribution the voluntary sector might make. As Ms Diane Trembath of Help the Aged puts it: "We don't understand where the Government sees its responsibilities beginning and ending. They are not precise. None of us know what is expected of us."

The 70 per cent rise in personal giving since 1980 looks impressive, but has to be set against a sharp drop in the 1970s

If the Government is serious about promoting private welfare, it will have to develop a coherent set of policies for the sector. Reliable information is an essential prerequisite. The *Charity Commission, following* an efficiency audit by Sir Philip Woodfield, is putting its house in order. It has begun to computerise and update its hopelessly outdated register of charities; it is also preparing to assume a more active regulatory role.

But a body with broader responsibilities is surely required. Some 200,000 voluntary organisations, after all, are not registered as charities. Who supervises them? Perhaps the Government should establish a Voluntary Organisations Commission to assume overall charge of this growing but largely unrecognised sector. It might also make a minister of state responsible for non-profit bodies.

Better regulation, while essential, cannot be a substitute for legislative reform. Under present rules, the range of bodies that can claim charitable status is ludicrously wide. Most people will accept that the Imperial Cancer Research Fund deserves charitable status. But why should the Adam Smith Institute (a free market pressure group), Harrow School or the British Hedgehog Society qualify?

The problems arise because there is no formal definition of charity. Case law dates back to an Elizabethan statute of 1601. Tudor legislators were primarily concerned with the relief of poverty, but flexible interpretations by courts over the centuries have steadily broadened the scope of charity. In a famous judgment in 1891, Lord Macnaughten was able to declare that charity included not just the relief of poverty, the advancement of education and the promotion of religion, but also sundry "other purposes beneficial to the community."

This last clause opened the floodgates. Virtually anything can be declared of benefit to the community. The advancement of the efficiency of the armed forces, for example, is deemed charitable under this heading - which is why rifle clubs get tax subsidies. A perfect definition of charity may be unattainable. But an improvement on the *status quo* is surely possible. At the very least, an effort should be made to get back to the Tudor focus on poverty relief.

But even if tax, legal and regulatory anomalies are sorted out, the expansion of *private welfare is* likely to prove problematic. Voluntary organisations do not regard themselves as a substitute for public services. They are niche operators and innovators. They see their role as filling gaps in state provision and in pioneering new types of service. (It is no accident that the voluntary sector provided the first hospices for Aids victims.) The sector fears that if it is increasingly obliged to take on the bread-and-butter work of the state, its capacity to innovate will be progressively impaired.

Privatisation is being envisaged even though no analysis has been undertaken to find out under what conditions and in what areas, the voluntary sector might be expected to provide services more efficiently than the public sector. The presumption of efficiency in competitive private-sector industry is at least partially supported by economic theory. But there is no corresponding rationale for efficiency in the voluntary sector. People give their time and money for non-economic reasons: there is no bottom line. The value for money achieved in the *voluntary sector may* thus prove disappointingly low.

There is certainly no reason to suppose that the allocation of resources will accurately reflect social and economic needs. Indeed, Mr David Gerard, author of Charities in Britain, estimates that the rich gain as much as the poor from the overall work of the voluntary sector; only a tiny proportion of the total sums donated is available for poverty relief as such.

The league table of big charities is a testament to the quirkiness of the British donor. Animals, children, lifeboats, the Third World, and certain medical causes are traditionally popular. The blind, for some reason, are more generously funded than the deaf. But the public is much less willing to support what are regarded as "undeserving" causes: for example, battered wives or drug addicts. A progressive shift to private welfare is likely to result in a less balanced mix of services.

A more fundamental objection concerns the nature of charity. Government ministers keep saying they want to eliminate the "dependency culture". But you cannot promote giving without simultaneously promoting receiving. An expansion of private charity will be possible only if more people become dependent on the goodwill of richer individuals. Is this a sensible objective?

The National Council for Voluntary Organisations points out that at the height of Victorian philanthropy, the poor were "dependent on and controlled by the wealthy benevolent classes, who in this way relieved their consciences . . ." *The post-war welfare state* was a reaction against such policies: the founders hoped that a combination of universal benefits and social insurance would eliminate the need for degrading dependency.

Many claimants of state benefits, such as the disabled, argue with some justice that they should receive support as of right. They *do* not want to be regarded as the helpless recipients of charity. The Government has so far concentrated on the moral superiority of giving; but what it should be asking is what kind of welfare best serves the needs of the unfortunate recipients of aid. The state as a provider still has much to offer.

OBSERVER

Women for Brussels

■ "When there are too many men competing for the same post, Mitterrand always chooses a woman," said one French politician on learning that Christiane Scrivener had been chosen to replace Claude Cheysson as France's second European Commissioner.

The remark may be unfair to a woman who appears to have most of the requisite qualities: a committed European, a centrist and a skilled hewer of legislative texts, topped off with a degree in psychology and a Harvard MBA.

With nine years in the European Parliament and a book - Europe: a battle for the future - to her name, Scrivener's Community credentials appear above suspicion, especially when backed by her friendship with Simone Veil, the former president of the European Parliament.

Veil is also in some way's France's symbol of the centre, and although President Mitterrand did not succeed in winning her over to his opening up of the Government to include more non-socialists, the 63-year-old Scrivener, best known in France for the law on consumer credit that bears her name, is very much in the Veil mould: almost, some say, a proxy.

The unspoken promise in Mitterrand's flirtations with the centrists was always that the second French seat at the Commission would be theirs, breaking with the tradition of keeping both for the ruling party and rejoining the practice of the UK and West Germany.

Scrivener is not guaranteed Cheysson's Brussels portfolio of Mediterranean policy and North-South relations. French governments have a tradition of quarantining women in "feminine" ministries like health or, as in Scrivener's own case, consumer affairs. And in Brussels, too, it may prove a hard task to extract a substantial portfolio from her compatriot and Commission President, Jacques Delors, against the competing claims of fifteen other commissioners.

She will have one joint first to her credit, however. Along with Vasso Papandreou of Greece, she will be the first woman commissioner in the history of the Community. Papandreou is not related to the Greek Prime Minister.

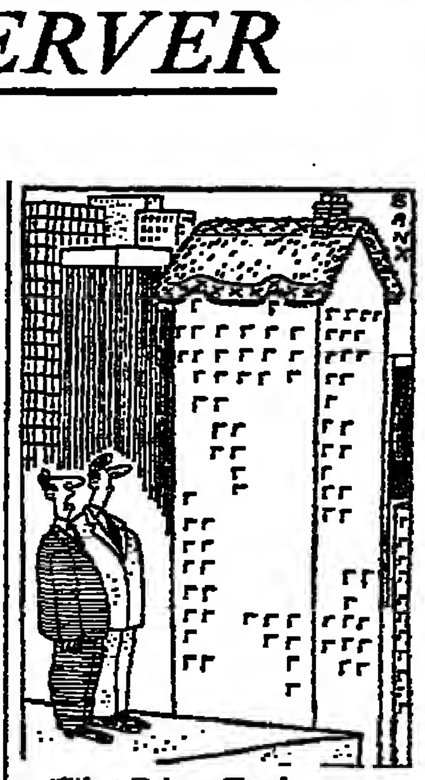
Men apart

■ One always assumes that everybody in English public life must know each other. That is not so. There was the time when the now Lord Carr was Secretary of State for Employment and turned out never to have met the now Lord Gormley, who was about to bring out the National Union of Mineworkers on strike. Another case of is Lord Rees-Mogg and Louis Blom-Cooper.

Rees-Mogg is the head of the new body to monitor sex and violence on television. Blom-Cooper is the chairman-designate of the Press Council. They have never met. And although Rees-Mogg's job may be about censorship, while Blom-Cooper will be trying to uphold the freedom of the press, there would be no great harm, and possibly something to be gained, by someone bringing the pair of them together to compare notes.

The Amex prize

■ It may not be a bad idea for economists, budding and mature, to go in for the essay competition organised by the American Express Bank. The first prize is $15,000. The essays, which must be previously unpublished, need to 5,000 words long and on any subject in international economics of current relevance to financial markets.



"It's a Prince Charles approved skyscraper."

The Amex awards began last year and will now become an annual event. They are *tied* to the name of the late Robert Marjolin who, as well as being the first head of the OECD and one of the founding fathers of the European Community, was in his last decade an editorial adviser to the Amex Bank Review. He died in 1986 and the English version of his memoirs will be published shortly.

Last year's top prize winner was Alexis Rieffel, deputy director of the Office of Monetary Policy in the US Treasury, for his essay arguing that developing countries would be better off without exchange controls. The senior judge was Raymond Barre, *the former* French Prime Minister.

This year's winners will be announced at the Dorchester this evening and there may be some surprises among the 250 participants from 37 countries. The awards committee was presided over by Lord Roll of Ipsden, formerly of the UK Treasury and now President of S G Warburg Group plc. Roll was one of those men who ought to have urged British membership of the European Community much harder, much earlier. The guest speaker is Lord Cockfield, who could make some telling valedictory remarks about his own experience of the Community - and of his treatment by the British Government.

Strange judges

■ There have been two cases recently in which the judge's summing up was so extraordinary that one could only assume that it was ironic. The first was Mr Justice Caulfield in the Jeffrey Archer libel case: "Has she elegance? Has she fragrance?" and so on. And on Archer himself: "Is he in need of cold, unloving, rubber-insulated sex in a seedy hotel round about quarter to one on a Tuesday morning, after an evening at the Caprice with his agent or editor?"

The second was last week when Mr Justice Swinton Thomas *passed sentence* in the case of conspiracy to murder the Northern Ireland Secretary. I do not think that had I been a member of the jury I could have taken the conduct of either case seriously. Yet Archer was awarded £500,000 damages and the three Irish people were given 25 years. Is there any profession outside the law where the senior practitioners can be quite so pompous?

One may wonder whether a newspaper will ever win a libel case again, and whether conspiracy - which means thought of the mind - deserves such a sentence.

Some comfort

■ A talk advertised at an Essex women's club is called: "Why do women drink?" Someone has added: "To make their husbands more attractive."

Christina Lamb in Islamabad and **Robin Pauley** in London report on the in-fighting plaguing Pakistan's election campaign

A party in search of a programme

Ms Benazir Bhutto, leader of the PPP: thought by many to be too heavily influenced by sycophantic advisers

President *Zia-ul-Haq grabbed* power in Pakistan in a military coup in 1977 and promised a return to democracy within 90 days. Now, 11 years later, the country's first free multi-party elections are imminent – too late for President Zia to secure his first fully democratic mandate as he was killed in August.

After 41 years of independence, more than half of which have been spent under military rule, the army seems finally to have stepped back, which is not to say that it will necessarily stay back. To the nation's general surprise and relief, President Zia's death did not result in yet another bout of martial law. Rather, the demise of the most autocratic of the young country's autocrats may have paved the way for democracy.

Crucially, the offices of President and army Chief of Staff, both held by Zia, have been separated. The new incumbents have repeatedly affirmed their commitment to free elections. General Aslam Beg, the army chief, summed it up pointedly: "It is now up to the politicians to make the polls a success." He might have added that it is also up to the army to accept the result, whatever it turns out to be.

But even if the army is serious about giving democracy a chance, the politicians may yet squander the opportunity. The early stages of the campaign were dominated not by campaigning but a bout of in-fighting among the main parties over the allocation of candidate tickets.

Politicians who talk freely about democracy seem prepared to sacrifice almost any principle to avoid being a loser. An elected politician in Pakistan enjoys almost deified local status, able to allocate land plots and development licences to those he favours; a politician out of power becomes, at best, a marginal drawing room celebrity.

As the Pakistan People's Party, the largest opposition party throughout Zia's rule, began gaining popularity in recent weeks, a flood of those belonging to other parties, including former ministers, switched sides and rushed to Karachi to beg for a PPP ticket *from Ms Benazir Bhutto, the party's* leader.

The PPP has long been most prominently associated with the fight for democracy, but it is shedding principles like autumn leaves in the pursuit of victory. At the moment, it seems *that if someone who has attacked the* party for years comes knocking at the 11th hour, it is his money and electability that count for most in gaining acceptance by the party. Brigadier Asghar, Finance Secretary of the main conservative party, the Muslim League, and political adviser to Mr Mohamad Khan Junejo, a former Prime Minister under Zia, admits: "We politicians in Pakistan have no principles."

Few doubt that in fair elections the PPP will be the single largest party, an assessment shared by the 18,000 applicants, some reportedly offering Rs 3m (approximately £100,000) a time, for the party's 743 candidatures.

Ms Bhutto calculated that some newcomers and turncoats had to be accepted, in spite of the fury it provoked within her party, because of their local influence.

Ms Bhutto's belief that powerful vote-catchers, even former associates of Zia, should be allocated tickets now and be dumped later may prove naively optimistic. It also affronts some of her former allies. Mr Rasul Bux Palejo, secretary general of the Awami National Party, argues: "Getting a majority through such people will be a bogus majority. Benazir's father, Zulfikar Ali Bhutto (founder of the PPP and former Prime Minister) did not die for the cause of bringing back the men who hanged him."

It is this grievance which has resulted in the PPP splitting away after seven years from those allies with which it formed the nine-party Movement for Restoration of Democracy (MRD). The PPP now remains in alliance with only one small party needed to attract some religious votes.

Against this background of internal party strife, it is perhaps not surprising that real campaigning was slow to get under way. The PPP's biggest challenge is to present the illusion of change to the people while reassuring the powerful triumvirate of army, religious mullahs and business community that, if the party were to win power, it would not upset the *status quo*.

Many fear that a PPP government would become embroiled in seeking vengeance, or would attempt economic reforms that are not viable. Ms Bhutto is only 35, has no government experience, and is thought by many to be too heavily influenced by sycophantic advisers. It is not clear how much of the old PPP remains in her party; people still remember vividly the repression and overnight nationalisations of her father's PPP government of 1970-77.

The PPP has long been associated with the fight for democracy, but it is shedding principles like autumn leaves in the pursuit of victory

The party leadership has responded to these fears by lauding the role of the armed forces at every opportunity and emphasising that there will be no nationalisations. But this too draws criticism such as that from Sherbaz Mazari, leader of another of the MRD parties: "The PPP has compromised too much, trying to satisfy the army, bureaucracy and foreign powers. If one must accept their terms to win power, what kind of power can that be?"

Of the two new alliances formed from among some of Pakistan's 43 parties to counter the PPP, only one remains intact. Fears of the PPP's popularity and pressure from President Ghulam Ishaq Khan led to the reunification of the Muslim League, which had split into two factions. The League, with Mr Mohamad Khan *Junejo as its president, will now fight* under the banner of the Islamic Democratic Alliance (IDA) – a group of nine pro-establishment parties.

So the elections will probably end as a two-horse race between the PPP and IDA. With both main parties facing so many internal problems, some people are beginning to feel that the late President may have been right when he said Pakistan's political parties were just pressure groups, too immature to govern.

Whoever wins, that judgment will be put to the test quickly. Pakistan's economy faces serious structural problems in the near future in spite of the current surge of consumer prosperity. An incoming government will have to consider urgently the introduction of an agricultural income tax, which the World Bank and several ministers agree is vital but which it has so far been politically impossible to contemplate.

Dr Ghulam Rasul, the Government's economic adviser, reels off other daunting problems: the yawning trade deficit; unemployment which he says is now 13 per cent of the workforce and rising; population growth which will double Pakistan's 102m within the next 20 years; a literacy rate often estimated as low as 15 per cent. *Little is being done to* reduce Pakistan's increasing dependence on domestic borrowing, internal debt having tripled in the last six years. One Western diplomat predicts: "Pakistan is on a slow boat to bankruptcy."

Until now the US has always been on hand to help. In return for Pakistan's unwavering support for Afghan resistance against the Soviet occupation, the US has taken a soft line with Pakistan on many issues, particularly the direction and development of its nuclear industry. US aid funds have been poured into Pakistan, now the world's third largest recipient of US largesse. But the Soviet forces are withdrawing and the geopolitical map of the region may change as a result. Just as the Afghan crisis probably saved Zia from losing office years ago, its ending may bring home economic realities which have been carefully masked until now.

Both major parties continue to support the Afghan resistance. But resistance leaders fear that a new PPP government might be more willing to compromise with the Soviet-backed Kabul regime of President Najibullah.

Whether Pakistan's enemies are inside or outside the country, it remains an easy target for trouble. Lack of proper democratic representation has produced extreme polarisation on sectarian, ethnic and regional lines. Sophisticated weapons are readily available to dissidents from Afghan resistance supplies and drug smuggling provides large reserves of cash.

One party leader has been murdered at a rally in Karachi; shots have been fired into a party office in Islamabad. The fact that Ms Bhutto's party has been in the vanguard of the campaign for free elections and now looks set to win them, albeit by a narrower *squeak than she might expect, does* not mean that the road back to democracy is going to be anything but bumpy.

LOMBARD

Match-making in Frankfurt

By Haig Simonian

Alfred Herrhausen, the speaker (chief executive) of Deutsche Bank, West Germany's largest bank, may be regretting the moment earlier this year when he first indicated that his bank would reach a decision on entering the insurance business by the end of 1988. As the months draw on, and Deutsche Bank, one of the world's most highly regarded financial institutions, keeps quiet, speculation in Germany about its intentions has run increasingly wild.

Just about any domestic insurance company not already in firm hands has been tipped as a possible acquisition candidate. The merest hint of availability has been seized upon by the pundits, translated into fact, and widely discussed. Even an article in the Financial Times last week regarding the future of Gerling, the privately owned group which is a leading light in industrial insurance, has been seized on, and another name added to the bank's potential hit list.

Co-operation between German banks and insurers is already taking place, not least last year's ground-breaking purchase by the Aachener und Muenchener, the country's fifth biggest insurance company, of a controlling stake in Bank fuer Gemeinwirtschaft, a sizeable and nationally represented bank.

But a move by Deutsche Bank, Germany's biggest and most powerful financial institution, would be something else altogether, even if it were only modest at the outset. It might also be a signal to other large German banks which may have been considering such a step, let alone some abroad, to go ahead.

A Deutsche Bank initiative could upset the hitherto cosy relationship between it and Allianz, Europe's biggest insurance company and itself no mean force in German finance. For some, a decision by the bank has all the drama of a potential battle royal between two of the mammoths in German money. Hence the extraor*dinary excitement* which has been generated in recent weeks.

Germany's tip sheets, of which there is no lack, are having a field day. Speculation has spread to the quality press, as observers grow frustrated at the lack of news and increasingly imaginative in their forecasts.

How Allianz might react to any move by Deutsche Bank is *proving to be fertile ground for* the imagination. The company itself, under its cautious chief executive, Mr Wolfgang Schieren, has kept mum. It is known to have sizeable stakes in a number of banks, and some have suggested that it might now take full control of one in order to fight Deutsche Bank on its own ground.

Meanwhile, the shares of Dresdner Bank, Germany's second largest financial institution, have been under persistent buying pressure in recent months from an unknown source. The banks senior executives say they are baffled. The purchases have not been huge, but steady and prolonged – and most tipsters have felt no need to look further than Munich, Allianz's home.

Apart from the problems such a step would cause on monopoly grounds, in view of the fact that Allianz has a number of other bank holdings (not least a near 25 per cent stake in Bayerische Hypotheken-und Wechsel Bank, Germany's seventh biggest bank) the theory faces a variety of other obstacles. Inconveniently enough, the bosses of both Allianz and Dresdner Bank have consistently denied any suggestion of a link.

That did not stop one eminent newspaper from leading Friday's business page with a story, attributed to a tip sheet, claiming that a link between the two had been all but sealed. More of the same is no doubt to come.

In a country where corporate raiders and hostile takeovers are still the stuff of fiction, the latest guessing game about possible alliances is providing an ersatz thrill. But those less inclined to a heady life can only hope that Deutsche Bank will make its mind up soon. Meanwhile Dresdner may be thinking up some wheeze this week to flush out its mystery buyer.

LETTERS

'Vital to the security of the free world'

From Dr Stephen D. Bryen.

Sir, Your article "Soviet scientists seek new technology deals with US" (October 24) concerns me deeply. It describes how the Soviets are trying to work ventures with the US to obtain some of our most sensitive microelectronics technology.

Microelectronics technology is vital to the security of the free world. The backbone of our entire defence system rests on applications of microelectronics in computers, command and control networks, intelligence gathering systems, and in a wide range of weapons programmes.

The Soviet Union is lagging badly behind the west in this area, and has been seeking to acquire know-how and technology from the west through legal and illegal means. Whenever gullible westerners can be used for such purposes, they are.

One favourite Soviet tactic is to claim they already have the technology in hand and are seeking commercial cooperation with western firms. So, as your article reports, the Soviets are claiming they have a 32 bit microprocessor design, and are seeking a co-operative program with leading US firms.

Of course this is pure disinformation. The Soviets have not been able to produce a competent 16 bit microprocessor, nor even design an original part (all of them are copies from western companies).

Had your reporters asked any government official in any of the COCOM countries (Nato countries plus Japan) they would have learned this immediately, and they would also been told that such technology is not available to the Soviets because of the security threat.

It is too bad that the article appeared on the front page of the Financial Times without somewhat better balance. I am concerned that the wrong message will go out to the business community, and that Soviet disinformation will be passed along uncritically.

Stephen D. Bryen,
9525 Clement Road,
Silver Spring,
Maryland 20910, USA.

Law Society failed to plan for training needs

From Mr Ben Williams.

Sir, Raymond Hughes's article about the recruitment crisis in the Law Society (October 24) is a voice added to many about the serious inadequacies of the Law Society to plan effectively the longer term training needs of our young law students.

Many such articles have tended to focus upon the deteriorating image of the legal profession, and the accelerating growth of UK and European market needs – two important reasons contributing to the problem of shortage.

I believe there is another key factor: an inadequate number of places available to law students wishing to become solicitors and study for the Law Society examinations during the year following completion of their university degree course. Passing this examination is the gateway to becoming an articled clerk, and subsequently a qualified solicitor.

Applications to the Law Society schools and polytechnics for the academic year 1988-89 were over-subscribed tenfold in some instances, and the situation seems unlikely to change within the next three years.

There seems to be no shortage of committed students – rather a shortage of UK facilities for them to continue their education uninterrupted, and give them a fair opportunity. Many seek careers elsewhere, in frustration.

Depression of the UK economy in 1980 does not excuse the Law Society from responsibility to demonstrate its skill in long term planning. British industry managed it well enough. Why not the British Law Society?

Ben Williams,
2 Jacksons Lane,
Great Chesterford,
Saffron Walden, Essex.

US soccer

From Mr William Summers.

Sir, Stephen Gardbaum overlooks a point in explaining the barriers soccer must overcome in the US (October 15). It has yet to become a commercial success because fans pay to see games they played during their athletic days – baseball, basketball and football. Few of today's ticket-buying generation have played much soccer.

By the mid-1990s it may move up to the exalted rank of other professional sports.

Bill Summers,
4 Foxwood Circle,
Mount Kisco,
New York 10549, USA.

The Royal Opera House scheme at Covent Garden

From Mr David Weeks.

Sir, Now that the Appeal Court has ruled in Westminster City Council's favour, I feel that I can answer some of the points which have been raised in the debate on the Royal Opera House scheme.

It has been suggested that the city council should have instigated a public inquiry; that it has a vested interest in the scheme, and is disinclined to justify its activities in public.

This is nonsense. The city council is the planning authority for the area. In that capacity it has given very careful and detailed consideration to the scheme, including the financial aspects, as it was bound in law to do. The resulting decision has twice stood the test of legal challenge – in the High Court and also in the Court of Appeal. It would be for the Secretary of State for the Environment to call a public inquiry, and he has declined to do so.

The entire process has been extensively aired in the council's own committees, in the courts and in the press. There is not now, and has never been, any justification for the abdication of our responsibilities as a local planning authority.

Criticism of the Royal Opera House scheme has concentrated on its office content. It has been suggested that in permitting offices on the site the city council was flouting the provisions of the statutory plan for Covent Garden. This is wrong. The plan states that office uses are "not inappropriate, but approval will depend upon scale and exact location", and that individual schemes will be determined on their merits.

This is precisely what the council has done. It concluded that the scheme was a departure from the plan not because of its office content alone, but in its totality. Without the special needs of the Opera House it might well not have permitted the redevelopment of Russell Street, for example.

The council also recognises that there is legitimate concern about the spread of office uses within Covent Garden; indeed, it may well be adopting more rigorous policies in the near future. The council decided to approve the Royal Opera House scheme because of the particular needs of a major national institution which would not otherwise be provided for.

The other element of the scheme which has attracted criticism is the inclusion, at the city council's insistence, of a public car park of some 300 spaces. The city council, through "pedestrianisation," has been reducing the number of on-street parking spaces in Covent Garden, and the new capacity within the Royal Opera House site will provide an opportunity for further pedestrian areas and, hence, reductions in on-street parking.

In addition, a proportion of the spaces will be for car-owning residents who, a recent survey shows, have severe difficulties in finding parking spaces near home. As a result, the car park will benefit Covent Garden both functionally and environmentally.

In my view, the controversy surrounding the Covent Garden Opera House scheme has obscured its very substantial achievements. Jeremy Dixon's design is of the very highest quality, and has been widely praised. It will complete the Piazza in the form intended by Inigo Jones.

David Weeks,
Chairman of the Planning and Development Committee, Westminster City Council,
Warwick House,
25-27 Buckingham Palace Road, SW1.

FINANCIAL TIMES

Monday October 31 1988

James Buchan on Wall Street

A lesson in junk bond distinction

LAST WEEK, buyers of the low-grade corporate debt, or junk bonds, behaved in a most uncharacteristic fashion. Deaf to the offer of usurious yields, they refused to buy $1.15bn in notes and debentures from Federated Department Stores.

This was bad luck for Mr Robert Campeau, a Canadian who needs to refinance the $6.71bn he raised in May to take over Federated. It was bad for First Boston, which lent much of its capital to Mr Campeau and now wants it back for its own business, which is really more banking than big-store retailing. It was bad for people who bought stocks in the hope of Campeau-style takeover, because these stocks fell in price.

Nobody else need mind. The junk bond market has not discovered caution, only discrimination. Investors snapped up junk bonds from Fort Howard Paper and are baying for pieces from the carve-up of RJR Nabisco. "It's not demand and supply," a trader said. "It's credit."

In 1930, the first year of the Depression, Federated Department Stores took in enough profits to cover its interest bill three times, according to Grant's Interest Rate Observer. In 1988, the eighth year of a great economic expansion, the new Federated showed a pro-forma earnings deficit to fixed charges of $198.1m in just six months.

Of course, nobody talks about earnings nowadays. Investment bankers live for the moment and ignore depreciation as a business cost – the bankable surplus is called cash flow. Under the modern arithmetic, Federated's cash flow covers its fixed charges 1.3 times after an offering of bonds at an average 14 per cent yield. According to people at Moody's and Standard & Poor's, this cover is not too bad for a credit rated about as low as can be this side of bankruptcy. The post-offering balance sheet sports equity of $1.18bn to support $5.05bn of debt, which looks downright pedestrian by recent Wall Street standards.

Unfortunately, high-fashion retailing is a notoriously unstable business. Federated's sales in the six months to July fell at all the Federated groups that Mr Campeau wants to operate rather than sell off. In the three months to July, profits before interest and central expenses at the stores fell 40 per cent.

First Boston's prospectus for the bonds ascribes all this to weak demand for women's sportswear and the distraction of company staff by the takeover battle. The trouble is that sales could just as easily fall the same amount again, which would strip bondholders of any cash-flow cover.

As for the equity in Federated's balance sheet, it is much less than it seems. Honest to a fault, the prospectus reveals that most of it consists of loans to the Campeau organisation from banks and from US and Canadian real estate developers. Some of this is being repaid by the sale of other Campeau department stores and some is convertible into real equity. It may yet prove to be a rock-solid base for Federated's superstructure of debt.

But that needs faith and the junk bond market has little faith to spare for Mr Campeau. In early 1987 the market bought an issue of bonds for Allied Stores, his first big retail acquisition in the US. The price has fallen steadily and their yield risen towards 16 per cent, because Mr Campeau borrowed against Allied and sold off its two best businesses – Brooks Brothers and Ann Taylor – to help finance the tilt at Federated.

It is no use saying that the Federated bonds are better protected and bondholders can keep Mr Campeau on a tighter rein. The prospective purchasers are the same people who lost money on Allied and they are demanding the same bargain-basement yields.

The offering stalled last week because Federated simply cannot pay a 16 per cent yield. At that interest rate, the cash flow multiple will be one or as near to one as to make no difference. A seasonal drop in sales of, for example, infants' formalwear, could bankrupt the company.

Mr Alan Greenspan, chairman of Federal Reserve, told Congress on October 17 that he had asked banks to look at leveraged buy-out loans "under a range of economic and financial circumstances." First Boston's range of circumstances for Federated would appear to run the whole gamut from prosperity to boom. If there is planning for a recession, it is hard to find it.

Fresh credits 'crucial for Poland'

Christopher Bobinski talks to the country's new Prime Minister

Mr Rakowski: aiming to liberalise the economy.

NEW WESTERN credits and an easing of the conditions under which Poland services its $36bn external debt are crucial if the country is to enjoy any improvement in living standards, according to Mr Mieczyslaw Rakowski, the new Prime Minister.

Mr Rakowski, who took office a month ago, said in an interview that the main restriction on growth was debt-servicing payments of more than $1.5bn a year.

The Prime Minister also said he was aiming to "liberalise the economy to the greatest possible extent" both internally and in respect of Western investment.

He was looking for savings on arms spending to provide tangible relief.

"The debt burden, though, has us by the throat. If I'm unable to change this, if I fail to get new credits to make the economy more flexible, then Poland will go through a period of austerity without any prospect of raising living standards," he said at the weekend, back in the government offices where he spent half of the 1980s as a Deputy Premier.

He was speaking before the visit this week to Poland of Mrs Margaret Thatcher, the British Prime Minister. Mrs Thatcher will be the first major Western leader to arrive in Warsaw since the martial law crackdown in 1981.

Mr Rakowski, 62, said he intended to use his contacts in the West, gained when he was the editor in the 1960s and 1970s of the influential Polityka weekly, to win greater understanding for the country's plight.

On relations with Moscow, he said: "We have an open political credit line with the Soviets and this is the new element in Poland's situation," implying that before the arrival of Mr Mikhail Gorbachev, the present Soviet leader, Polish leaders were never fully trusted by the Kremlin.

The Polish Prime Minister said opposition to his plans for cutting arms expenditure was coming primarily from the Polish arms industry rather than from the Warsaw Pact or from Gen Florian Siwicki, Poland's Defence Minister, who was "very willing to help improve the economic situation."

Mr Rakowski did not say by how much arms spending would be reduced.

He acknowledged that the West was looking for concrete proof that his Government meant what it said about moving ahead with radical economic reforms.

"We will give it to them," he said, confirming that he was determined to close unprofitable factories and redirect labour.

He admitted there could be strikes but also said that his instinct told him Poles were ready for radical steps on the economic front.

"It's our only chance and we don't have much time," Mr Rakowski said, explaining that action was essential if the initial modest shift in the Government's favour shown by the opinion polls was not to be frittered away.

Mr Rakowski put the conservative nature of senior administrators high on the list of barriers facing his Government. "They've completely lost the ability to take risks, and progress means taking risks," he said.

"At the same time, they have the conviction they are always right," he said, adding that it was fascinating how fast the Establishment lost the sense of "dynamic fear" that the challenge posed by Solidarity in 1980 and 1981 had engendered.

Mr Rakowski named Mr Mieczyslaw Wilczek, his Industry Minister, who came to government from the private sector, and Mr Dominick Jastrzebski, the Foreign Trade Minister, as members of the group of innovators on whom he was counting to challenge the Administration's traditional methods.

Mr Rakowski said he was looking to young managers in state industry to support his drive for efficiency, while the private sector, which could expect to develop, would continue to be complementary to the state-owned sector.

The new Prime Minister, who joined the Communist Party soon after the Second World War, made no secret of his view that the system he represents is at a crossroads.

"If socialism fails to show it is economically viable, then it loses in the historical confrontation with its rivals," he said, adding that the economic well-being of the population was the most important criterion for his Government.

"I haven't heard of anyone who managed to feed the masses with ideology. Why should our people be happy if the economy doesn't work and the fruits of their labour fail to give them the benefits they expect?" he said.

Maxwell clinches $750m US travel publishing deal

By Raymond Snoddy in London

MR ROBERT MAXWELL, the British publisher, yesterday clinched his first major publishing deal in the US with a $750m agreement to acquire most of Dun & Bradstreet's Official Airline Guides division.

The part of the division which Mr Maxwell is buying publishes and provides electronic official information on airline schedules and fares and also has a stable of magazines relating to the travel industry including Frequent Flier, Pocket Flying Guide and Travel Age. He also has an option to acquire Thomas Cook Travel Inc, which Dun and Bradstreet bought from the Midland Bank.

Mr Maxwell said last night he had a "definitive contract" to buy the publishing interests of OAG and hoped to complete the deal by the end of the year. The OAG publishing interests had an operating profit of about $65m last year. Dun and Bradstreet, which will record an after-tax gain of $450m on the deal, announced plans to sell the division in July.

The acquisition is being made through Pergamon because of Mr Maxwell's $2.5bn-plus tender offer on the table for Macmillan, the US publisher. Maxwell Communication Corporation, Mr Maxwell's main quoted company, has an option to buy OAG should it be in a position to do so. But Mr Maxwell said in a television interview last night that the OAG deal was not affected by his attempt to acquire Macmillan and would go ahead whatever happened to the contested bid still before the Delaware courts.

The OAG deal, being paid for by an undisclosed mixture of cash and debt, looks like making Mr Maxwell a significant player in the travel business. He said last night he also has an option with Dun and Bradstreet to buy Thomas Cook Travel Inc, the US travel group with 60 regional offices in the US. The Midland Bank, owners of the now separate Thomas Cook Group, have been informed of Dun and Bradstreet's intention to sell its US travel business.

Mr Maxwell claims to be the second largest commercial printer in the US but was rebuffed by Harcourt Brace Jovanovich, the educational publisher, and so far also by Macmillan.

The deal will mean printing contracts for Mr Maxwell's US printing operations. Mr Richard Shaffer, chief executive of Dun and Bradstreet's OAG division, will stay on to manage then company under its new ownership.

UK expects economic 'soft landing'

By Peter Norman, Economics Correspondent, in London

MR NIGEL LAWSON, the British Chancellor of the Exchequer, is expected to forecast tomorrow that Britain's booming economy will achieve a "soft landing" next year with slower growth and a declining balance of payments deficit.

As the Chancellor was putting the finishing touches to his Autumn Statement yesterday, he received support from two leading forecasting groups.

The London Business School and Oxford Economic Forecasting predicted that the Government's high interest rate policies would successfully cut Britain's large current account deficit from next year onwards without causing recession.

However, the LBS and Oxford both warned that interest rates would stay high for some months. LBS forecast that interest rates would not fall before the middle of next year while the Oxford forecasters said rate cuts might have to wait until "late in 1989."

Mr Lawson's aides say that the Chancellor is in a confident mood as he prepares his detailed account of government spending over the next three years and the economic forecasts for 1989. He will need to be, for the likely persistence of high interest rates to curb the excessive growth recently in the economy has given the Labour opposition a strong plank to attack the tax cutting strategy of the last Budget.

While LBS and Oxford Forecasting believe the Government can achieve a soft landing for the economy, not all economic forecasters are confident that present policies will work.

In a study released today, Cambridge Econometrics, which in April was one of the few economic forecasting groups to predict a large current account deficit this year, said it believes that the deficit could continue to grow to £16.1bn ($28.5bn) in 1989.

Economic news, Page 7; Economic Notebook, Page 19

Israel heading for another national unity government

By Andrew Whitley in Jerusalem

ISRAELIS vote in parliamentary elections tomorrow – more confused and uncertain over their voting intentions than at any time in their country's 40-year history.

With opinion polls indicating an even split between the left and the right political blocs – at least among the 80 per cent of likely voters who have made up their minds – the indications are that Israel is heading for another national unity government.

Likud, the right-wing party which prefers these days to be known as "the national camp", rounded off its campaign last night in confident form, holding a rally in Tel Aviv. Labour, reflecting the more sombre mood of Mr Shimon Peres, its leader, went out on a quieter note.

Mr Yitzhak Shamir, the Prime Minister, hammering away at the same point he has made throughout the campaign, told fervent Likud supporters that a vote for Mr Peres would lead to a Palestinian state with its capital in Jerusalem.

"Maybe someone asks himself today why the King of Jordan, the President of Egypt and the heads of the PLO suddenly want Peres to win the elections," he said.

While Labour has tried to persuade voters that this election is indeed about "peace or war", an unconvinced electorate has, on balance, appeared to favour Mr Shamir's assurance that the right can better guarantee Israel's security.

The latest batch of opinion polls has provided contradictory predictions of the outcome. But, given that Labour had higher expectations of emerging again as the largest single party, they were not good news for Mr Peres.

The best that Labour and its smaller allies on the left can probably hope for is that the three parties representing Israeli Arabs will collect enough seats to block Likud's chances of forming a government of the right.

An Arab newspaper, Kol al-Arab, said yesterday they could gain as many as 10 of the Knesset's 120 seats, their best ever showing. Mr Peres has firmly ruled out inviting two of the three – the extreme left Progressive List for Peace and the Democratic Front for Peace and Equality – from joining a Labour-led coalition.

But there could well be a tactical alliance with these openly anti-Zionist parties to foil Mr Shamir during the lengthy political bargaining which will start as the polls close.

Reuter adds: The underground leaders of the Palestinian revolt yesterday called a strike in the West Bank and Gaza Strip to coincide with the elections.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	23	73	Dubrovnik	R	15	59	Malta	S	23	73	Rhodes	S	20	68
Algiers	F	25	77	Edinburgh	F	07	45	Manchester	S	06	43	Rio de J'o	C	35	95
Amsterdam	C	09	48	Faro	F	22	72	Manila	–	–	–	Rome	F	22	72
Athens	C	18	64	Florence	C	16	61	Melbourne	C	21	70	Salzburg	C	06	43
Bahrain	F	32	89	Frankfurt	S	07	45	Mexico City	C	21	70	San Francisco	F	19	66
Bangkok	F	30	86	Funchal	F	22	72	Miami	C	27	80	Seoul	F	14	57
Barcelona	S	18	66	Geneva	F	20	68	Milan	F	15	59	Singapore	R	30	86
Beirut	–	–	–	Gibraltar	S	23	73	Montreal	C	06	43	Stockholm	F	01	34
Belfast	F	07	45	Glasgow	S	07	45	Moscow	C	04	39	Strasbourg	S	09	48
Belgrade	R	08	46	Guernsey	S	09	48	Munich	S	06	43	Sydney	C	28	82
Berlin	F	08	46	Helsinki	F	-3	27	Nairobi	F	23	73	Taipei	C	20	68
Biarritz	S	21	70	H. Kong	C	18	64	Naples	F	21	70	Tangier	F	24	75
Bombay	–	–	–	Innsbruck	C	07	45	Nassau	F	30	86	Tel Aviv	R	24	75
Bordeaux	S	19	66	Inverness	C	07	45	New Delhi	F	32	89	Tenerife	F	25	77
Brussels	F	11	52	Islamabad	F	23	73	New York	F	13	55	Tokyo	F	17	63
Budapest	C	09	48	Istanbul	F	15	59	Nice	S	22	72	Toronto	C	09	48
B. Aires	F	24	75	Jakarta	R	32	90	Nicosia	C	20	68	Tunis	S	26	79
Cairo	F	24	75	Jersey	S	11	52	Oporto	F	19	66	Valencia	F	20	68
Cape Town	S	23	73	Jo'burg	F	23	73	Oslo	F	03	37	Venice	C	11	52
Caracas	C	26	79	Lima	C	20	68	Paris	F	10	50	Vienna	C	08	46
Casablanca	F	24	75	Lisbon	R	23	73	Peking	R	27	81	Warsaw	C	10	50
Chicago	C	05	41	London	F	10	50	Prague	Sn	03	37	Washington	C	08	46
Cologne	F	07	45	Los Angeles	F	22	72	Reykjavik	F	06	43	Zurich	S	06	43
Copenhagen	C	07	45	Luxembourg	S	06	43								
Corfu	S	20	68	Madrid	F	15	59								
Dallas	C	13	55	Majorca	S	25	77								
Dublin	C	07	45	Malaga	S	23	73								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Soviet shops 'auction'

Continued from Page 1

Mr Smirnov, with no training in shopkeeping, went round bread factories to learn about production methods and made contracts with co-operative bakeries to help avoid shortages. The result: happiness for the Smirnovs and friends, and for his clients.

Mr V. Aelxyev, an engineer, did follow Mr Smirnov's example: he volunteered to lease one of the six electrical shops offered, just next to the Kiev station. He confessed to nerves and did not know how much he would be able to pay his friends who would be his co-workers. But he had seen Japanese shops on television and decided to "do something about these terrible queues."

The man who was offering the electrical shops, and who only sold three of the six, was Mr V. Makhanik, deputy director of electrical trading in Moscow. He said the shops were all in good positions and should do well for customers – adding somewhat sardonically: "If only we had something to trade."

Electrical goods, like all consumer goods, are in short supply.

THE LEX COLUMN

The analyst as chameleon

The latest rankings of US investment analysts by the Institutional Investor magazine contain one particularly striking detail. Last year, the top research house was the archetypal retail broker, Merrill Lynch. This year Merrill comes fourth, behind Goldman Sachs, Drexel Burnham Lambert and First Boston – none of them primarily brokers at all, but investment banks. There is a trend here, and it is spreading to London, not least through these same US houses. Since Big Bang, the London analyst has been principal rather than agent; now he is becoming a corporate deal-maker as well. If you are a fund manager taking advice these days, who exactly are you talking to?

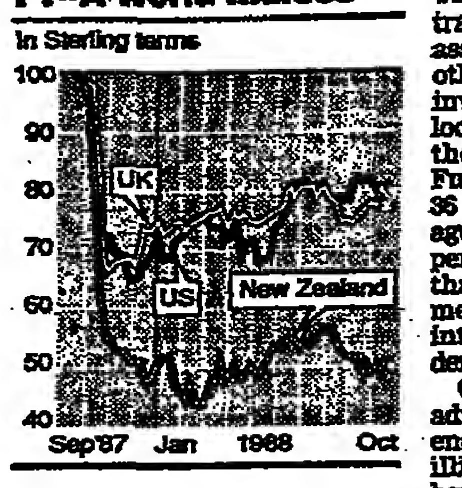
The US investment banks now hiring analysts in London, in the teeth of a stockbroking recession, are not as dumb as they look. They are happy to regard stockbroking as a loss leader, with the research team earning its real money in mergers and acquisitions. On the US model, this can be an aggressive business. The analyst needs to come top of the broking polls, because it gives him better access to management in the firms he covers. But when he visits those firms, he may well be representing his own bank across its range of services; and in particular, if acquisition or disposal is in the air, he may be the happier to oblige because he will earn a commission on the deal.

From the fund manager's viewpoint, this need not be a bad thing. The analyst involved in a major deal will normally be barred from talking about the stock for a period set by his employers. But he will meanwhile have intimate access to the company's affairs, and at the end of his period of purdah will presumably have useful things to say about the prospects for the stock. The awkward part comes when an analyst is involved in a deal which is not yet public, and is asked for his views by an investment client. To refuse to comment would be to give the game away; the likely response is a dead-pan answer based on the analyst's latest circular, which if not deception is at least a waste of the client's time.

Good or bad, it seems likely that the trend will continue. The idea of the analyst as backroom researcher was blown away by the crash of 1974; the role of analyst-salesman now seems equally under pressure, for the same reason that broking turnover no longer supports the function. It is hardly surprising that US firms recruiting in London report a readier response now than a year ago. Not only do they offer the security of a wider fee-base, they also tempt the analyst with the chance to move from boring old number-crunching into the world of the wheeler-dealer. The danger is, of course, that the boom in mergers and acquisitions will peak in its turn; indeed, if gigantism is a sign of anything, recent events in the US suggest that point has already been reached. But analysts are resourceful creatures, and when the time comes they will presumably find something else to turn their talents to.

FT-A World Indices

In Sterling terms



Country funds

The New Zealand Investment Trust, whose shares start trading in London this morning, is the latest in a growing list of specialised funds whose promoters seem to think that their shares can defy the law of gravity. The record to date of similar types of funds is hardly encouraging. Over the last year or two, more than 20 closed-end investment vehicles, concentrating on a range of individual stock markets from the UK and France to India and Brazil, have come to the market; almost all of them share one thing in common – their shares are now trading at a substantial discount to net asset value. This raises the obvious question: why can investors still be found to buy these issues at their flotation price?

Admittedly, the majority of these geographically specialist vehicles have been brought to the market in the US, where investors tend to be more swayed by the fashionable market of the moment, and the promoters are often keener on earning fat underwriting commissions than preserving their reputations. In a few cases, such as the Korea and Thai funds, the shares are trading at a premium to net asset value because there is no other effective way that foreign investors can participate in the local stock market. However, the example of the Taiwan Fund, which was trading at a 36 per cent premium a year ago, and is now standing at 10 per cent plus discount, shows that even the scarcity argument has little value when international sentiment suddenly turns against a market.

On paper, there are obvious advantages in using a closed end fund to invest in relatively illiquid markets, aside from benefiting from the manager's local investment knowledge. Unlike an open ended mutual fund, or unit trust, there is no pressure to sell shares at distress prices if investors suddenly want their money back. There are also obvious advantages of being able to gear up the balance sheet. But however appealing these arguments, investors in almost all of these specialist funds now see their shares trading at a substantial discount.

Nevertheless, the promoters of the New Zealand Investment Trust are reasonably confident that their vehicle will not suffer a similar fate. They may be right. Unlike almost every other country fund which has been brought to the market, it is impossible to argue that it is being floated at a time of bullish euphoria. The £8bn New Zealand market has been the worst performing market over the last year, which should appeal to the "contrarian" investor. And given that the fund is shunning the top 10 New Zealand companies, and only investing in smaller capitalised stocks yielding roughly three times the world average, its prospective yield of 8 per cent should provide solid support.

Admittedly, there is an obvious currency risk, and the example of the First Spanish Investment Trust, which was launched in the heady days of last year's bull market and is now trading at a discount of 18 per cent, is hardly reassuring. But the record of other recently floated high-yielding funds, such as Glasgow Income Trust, suggests that trusts can still trade at a premium to book value if their yield is substantially above the market average. There is always a chance that the New Zealand issue will prove the exception to the general rule of thumb that investors are better off buying into specialist country funds after the shares have fallen to a discount, rather than at the time of flotation.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 31 1988

INSIDE

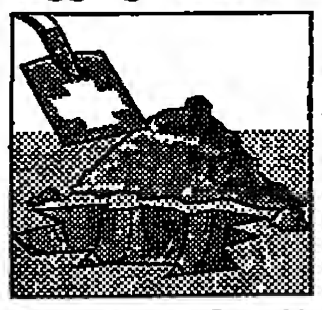
Sink the Bismarck and float in London

Fairey, the British engineering group, has a long, distinguished, and distinctly chequered history. Founded in 1915, it went on to play a role in sinking the German battleship Bismarck with its Swordfish aircraft, before itself suffering a financial disaster in the 1970s. More recently, it was the subject of a management buy-out and is it now set for a flotation on the main London market as a specialist engineering group making products ranging from nuclear power station components to video tape parts. Page 24

Agonising times for bankers

Controversy over Royal Bank of Scotland's role in financing the bid for Scottish & Newcastle Breweries has underlined the increasing difficulties posed for international banks by the worldwide takeover wave. Banks are facing growing conflicts of interest, becoming forced to choose between two, often valued, customers. Page 21

Digging holes in Switzerland



Two years after a chemicals fire in Basle seriously polluted the river Rhine, huge holes are being dug around the Swiss city. They would prevent the polluted water from any future accidents at local chemical plants from contaminating the river. Peter Marsh, in the Business Column, examines the European chemicals industry's approach to environmental matters. Page 38

Making an innovative splash in Eurosterling bonds

An innovative fixed rate, mortgage-backed £100m issue for Household Mortgage Corporation has had a considerable impact on the Eurosterling sector of the bond market, though a rush of similar deals does not seem very likely. Page 21

Pebereau wins go-ahead

Georges Pebereau and his partners have received permission from the French banking authorities to increase above 10 per cent their shareholding in Société Générale, France's fourth-largest bank. Page 22

Market Statistics

Companies in this section

Managing to export premium quality

Nick Bunker profiles the driving force behind AIG, one of the leading US insurers

"EVERYONE thinks they just have to mouth the words, and hire some of our people, and then they can turn themselves into another AIG", says 62-year-old Mr Maurice Greenberg, sipping fruit juice after an early morning work-out on his exercise bicycle.

The acid tone, and the strenuous physical regime, are the hallmarks of Mr Greenberg. So, too, is the scathing commentary on aspiring rivals to American International Group's position as the largest and most profitable supplier of insurance to corporate America. Mr Greenberg, one of the insurance industry's few charismatic managers, has been president since 1967 of AIG, a property/casualty insurer with a stock market capitalisation of $11.7bn, which is 30 per cent larger than Citicorp's.

Amid the rhetoric surrounding what some foresee as an impending upheaval in European insurance, triggered by the liberalisation of local markets due by 1992, last week's listing on the London Stock Exchange of AIG's shares aroused little comment. Yet Mr Greenberg's attempted use of the listing to raise the group's profile in London was significant, in two respects.

The principal one was his striking confidence about AIG's prospects despite the storm clouds that have gathered over the US property/casualty market.

The second was the subtle difference in attitudes towards 1992 that separates AIG, historically the most successful money-making machine in US insurance, with 1987 pre-tax operating profits of $1.11bn, from European counterparts.

By any standards, AIG is unusually complex. As evidence of AIG's underwriting skill, its executives hand out a manual for insurance brokers which lists AIG insurance products under 366 categories, starting with Aerosol Canning and Animal Mortality.

AIG's history is equally unusual. Founded in 1919 in Shanghai, its initial expansion was in the Pacific. It is the largest life insurer in the Philippines, and the only foreign insurer to obtain a substantial share in the Japanese market.

The key period of its growth, to 1987 total premiums of $11.28bn, has been the 25 years of dramatic US growth since the arrival of Mr Greenberg.

The turning point was his decision in 1962 to transform AIG's core US company, American Home, by abandoning the traditional system by which property/casualty insurers sold via costly armies of independent agents.

Maurice Greenberg: one of the few charismatic managers

Instead, American Home was to specialise in policies for major commercial and industrial risks sold via large brokers, supported by large scale buying of reinsurance.

Even AIG, though, is now *having to reckon with threatening* industry-wide problems. The strongest cyclical recovery in premium rates seen by the US property/casualty industry has faltered, and the market for corporate insurance risks is headed into the seventh price war it has endured since 1945.

A measure of AIG's resilience, however, is that it is protecting itself against trouble ahead by using the strong cash flow it has enjoyed since 1986 to make huge additions to its property/casualty loss reserves. Having raised them from $4bn at end-1985 to $8.67bn at end-1987, it is still adding to them a rate of $600m every three months.

On a broader front, the industry is under political attack. In California, it faces hostile voter initiatives on the November 8 election paper calling for automobile insurance premium rate rollbacks of between 7 and 50 per cent.

The 1986 Federal Tax Reform Act has hit hard at property/casualty insurers by raising enormously the tax charge that applies to their loss reserves.

Environmental pollution, Mr Greenberg says, is "potentially as big as asbestos, or even larger" - though he believes a recent trend for most court decisions to run in insurers' favour is a favourable sign.

None the less, he says: "Right now, it's a legal shoot-out between insurers and industry, which makes no sense." He suggests toxic waste clean-ups could be paid for by a fund created with an "environmental fee" added to corporate insurance premiums.

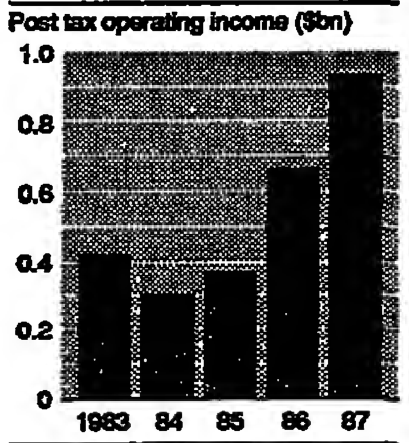
The new tax law is equally vexatious, though according to Mr Greenberg it has one potentially positive consequence: that the dawning realisation among insurers' of their higher tax bills will help curb price-cutting. *In AIG's* case, in the ten years from 1977-86, its total net group tax payments totalled only $514m, according to its 1987 annual report. The figure could be as high as $400m in 1988 alone.

In Europe, Mr Greenberg says AIG's growth in the industrial and commercial risks market will be predominantly organic. He sees that as the best way to preserve underwriting disciplines in a market which could simply face a squeeze on margins after 1992. He is sceptical about the type of joint ventures based on cross-shareholdings being pursued by some European insurers. "Everybody taking stakes of 20 per cent in everybody else doesn't make a lot of sense. It looks more defensive than anything else," he says.

The one exception to his principle of organic growth for AIG is currently in financial services in the UK. Via a London-based subsidiary called Pine Street Investments, AIG has been seeking investments in niche operations, such as its 20 per cent stake in the Household Mortgage Corporation. It also has 5.3 per cent of Kleinwort Benson, the merchant banking group, but Mr Greenberg says this is "a passive investment."

American International

Post tax operating income ($bn)



Coping with the awful cussedness of things

Anthony Harris in Washington

THE DOLLAR is under heavy suspicion in the currency markets again, and it is easy enough to understand why. For some readers the August trade deficit of $12.2bn may look conclusive in itself, but even if the trade figures were good, the current state of the election campaign and of the US economy in general is unsettling.

It is clear that these fears are not universal, for if they had been we would by now be watching a dollar crisis rather than a downward drift. I am part of the minority which thinks that the gloom is overdone, but that is all the more reason to state the case for the prosecution.

The political argument is convincing in its own terms. It states simply that Vice-President Bush, the likely winner, has run such a shabby campaign and remained so vague about his economic policies, that he will win office without power.

A Democratic Congress will confront him in a sullen rage, and do its best to obstruct any policies he does unveil, even policies for the national good. They will want to see him stew a bit first.

This case may be overstated. Most commentators – including some notable Republicans – are themselves angry and contemptuous about their party's smear campaign and want to see him suffer for it. However, Mr Bush himself seems embarrassed and is trying to raise the tone a bit in the closing days – too late, though, to make himself popular on Capitol Hill. It does seem likely that he will be rather a weak and ineffective President.

The real question is how much this matters. From the market point of view, his weakness was discounted as soon as he won the primaries. He has always been regarded as a weak man, and it is quite striking how little market reaction there has been to his advance in the opinion polls.

However, if the economy could be expected to sustain the balanced progress shown in the last eighteen months or so, a period of domestic stalemate, with detente abroad, might be very welcome. President Reagan's second term has been rather like that, since he too won without a mandate.

What are the chances of such progress? This is the really puzzling question. The one clear fact is that domestic demand is cooling down at the moment.

This would only be a suspicion if it rested on just one set of figures, such as the half-point fall in real personal spending reported on Thursday. US official figures are refreshingly frank about their own margins of error. However, every figure – for the labour market, where wage increases are abating, for commodity prices, for industrial orders and output – tells the same story, and nobody questions it.

Adjectives are a different matter, though. Some commentators see a soft landing, rather like the helpful easing of domestic demand caused by the market crash a year ago; the slowdown makes them more optimistic.

If consumers are spending less and saving more unbidden – which is now the well-researched thesis of Prudential Bache and one or two other well-regarded market members – then the stalemate in Washington will not matter.

This is a minority view, though. Most commentators expect the slowdown to be temporary and look for some rebound. The sharp fall in durable goods orders ten days ago, for example, was almost unanimously dismissed as a freak as soon as the figures appeared. Only a few unrepentant monetarists look at the M2 figures, read a future recession, and blame the Federal Reserve Board for being over-cautious.

If you are not a monetarist – and the Fed is certainly purely pragmatic these days – the best reason for unease is not to be found in any of the figures, but simply Murphy's Law, or what one one American folk-philosopher called the awful cussedness of things in general.

In other words, the present trend of sustainable growth, balanced inventories, well-behaved labour markets, and improving competitiveness in manufacturing, is simply too good to last. Things don't run as well as that.

For some time, though, they have run as well as that, and have run pretty well in many other advanced economies. Is this just a happy coincidence, or something more? It seems to me possible, at least, that some of the "problems" which worry a number of commentators (especially US Democrats), high capital and high real interest rates, are in fact solutions.

Free capital movements, as everyone knows by now, make it possible to finance large trade imbalances which would have caused major crises under earlier regimes, and to keep financing them for long periods. Partly for that reason, they make it much harder for governments or central banks to manage demand.

Actions which would once have caused financial crunches or recessions are diffused through the world economy, and are heard only as a distant warning rumble. Those in authority sometimes feel worried and impotent, but businessmen find life more peaceful.

World crises of inflation or slump may still cause upheavals; but perhaps such crises are unlikely as long as interest rates are high enough to discourage speculative inventory-building, and enforce sensible investment appraisal.

It is clearly harder to damp down financial speculation, but some progress in being made through tighter supervision, reinforced by the occasional *memento mori* in the shape of a crash. Our new world of floating rates, derivative markets and computerised trading seems to be imposing some rather only-fashioned guidelines for policy: fiscal responsibility and financial prudence.

The trouble is that even if this *equilibrium* exists it may well be unstable, like a novice on a bicycle. If the markets fear inflation, they will act to check it. But if they fear a US recession, they may well cause it, and if they fear that the dollar is over-valued, they will certainly try to knock it. That is why current worries about the US trade balance are so important.

Some of the worries seem ill-informed, like current Japanese concerns with the US current account as a whole. US current account figures are not only inaccurate, like everyone else's, but badly distorted by valuation problems, which weaken the dollar when the dollar is strong, and vice versa.

But if it is true, as some now fear, that US export growth is stalled while the economy is losing drive, a fall in the dollar is not only likely, but necessary.

The trade figures will largely settle that question before the next President is inaugurated.

If they are bad, a President Bush will live to wish he had kept more friends, and a President Dukakis might well do something silly because of what he said in his last populist drive to beat Bush. Keep your fingers crossed.

Economic Notebook

Lawson's autumn harvest

BARRING a cabinet revolt – a remote eventuality with this Government – it now seems certain that Mr Nigel Lawson, the Chancellor, will present one of his two annual set pieces on the British economy in the House of Commons tomorrow.

The Autumn Economic Statement has none of the glamour or tradition of the March Budget. But it is an *important* event none the less, setting out the Government's spending plans for the next three financial years and presenting the Treasury forecast for the economy in 1989.

This year's statement will be more keenly awaited than most. And it is the economic forecast that is likely to attract most attention.

The Government's spending plans were agreed in principle last week after protracted negotiations between the Treasury and the spending departments. For the second year running, Mr John Major, the chief secretary to the Treasury, managed to settle the various disputes without calling on the so-called Star Chamber committee of senior ministers to arbitrate.

This success means that the still little-known Mr Major is a man to watch in the future. But tomorrow, all eyes will be on Mr Lawson who will speak after the plans have been approved in cabinet.

Mr Lawson dislikes the twice yearly obligation imposed by law to forecast economic developments. With this year's Budget forecasts in disarray, few can blame him. He is presiding over an economy that is very different from that envisaged in March.

The good news is that economic growth is much faster than anticipated. The latest independent forecasts estimate that gross domestic product could grow by nearly 5 per cent this year compared with 3 per cent forecast in the Budget.

The bad news, as every consumer and householder knows, is that inflation, at 5.9 per cent and rising, is much higher than 4 per cent rate forecast in the Budget. Bank base rates, at 12 per cent, are trying to control booming demand. The current account balance of payments deficit for the first nine months was nearly £10bn against a Budget forecast of a £4bn deficit for the whole of 1988.

Mr Lawson's statement will therefore be studied closely for any clues about when inflation or the current account will improve.

The Chancellor originally said inflation would peak in the first half of 1989 but lately has been more vague, saying only that the turnround would be in the course of next year.

As there is general agreement that inflation will reach 7 per cent before turning down, the figure to look for will be the projected annual rate of inflation in the fourth quarter of 1989. Anything higher than 5 per cent will suggest that the present upsurge in prices is more a bulge than a "blip" and could, therefore, be a key influence in the impending Autumn wage round.

The current account figures are important for sterling, which Mr Lawson wants to stay strong to help control inflation. He has already put a lot of bad news in the market: indicating in September that the 1988 current account deficit will be around £12bn and forecasting earlier this month that it would probably take until 1990 before it falls significantly.

Boost credibility

But the fall in the pound that followed his last remarks showed that the current account can still put downward pressure on sterling.

In forecasting the current account, Mr Lawson may be tempted to add a little to the bad news already known for this year, thus boosting his credibility, and hold out the hope of a modest decline in the deficit in 1989. With an estimated £12bn of short-term "hot" money invested in sterling, a shock forecast for 1989 could precipitate a run on the pound and possibly force further increases in interest rates.

But before rushing to judgement, the markets will look very closely at the Chancellor's overall fiscal stance. Normally the Autumn statement is the occasion for intelligent guesswork about how much the Chancellor will want to "give away" in taxes the following March. Because demand is growing so strongly, the scope for tax cuts seems minimal and attention will be focused on what size budget surplus Mr Lawson is planning.

After a budget surplus of £3.7bn in the first half of this financial year and with corporate tax payments still to come, the final 1988-89 surplus could be £10bn or even higher. If Mr Lawson forecasts a surplus much below this level, his counter-inflationary credentials will be seriously questioned.

City analysts said last week that £8bn is the minimum budget surplus that Mr Lawson can credibly announce for 1988-89. Most were hoping that he would listen to his Treasury advisers and underpin his spending figures for 1989-90 with an "assumption" that next year's budget surplus will stay around this high level.

Peter Norman

THIS WEEK

ECONOMIC NEWS is expected to be dominated this week by Mr Nigel Lawson, the UK Chancellor, unveiling his Autumn Statement to the House of Commons.

The statement would provide information not only on public spending plans but what the Treasury is forecasting for the economy in the year ahead.

At the centre of analysts' attention will be the forecasts for the current account deficit and inflation. After last week's better-than-expected trade numbers, a relatively upbeat assesment could further encourage financial markets.

Statistics due to be published include figures for official reserves in October, released by the Treasury on Wednesday. These could provide a rough guide to the extent of Bank of England intervention on foreign exchange markets.

With the authorities determination to prevent a sterling depreciation, sales of foreign currencies may prove to have been substantial. However, underlying reserves could have been raised by as much as $1bn as the authorities bought dollars in anticipation of paying off a $2.5bn floating rate note.

The consensus of analysts forecasts compiled by MMS International, the financial research company, is for the underlying level of reserves to be unchanged from September.

US employment figures for October are released on Friday. The consensus is for an employment rate of 5.4 per cent and a rise in civilian and non-farm payrolls of 230,000.

US leading indicators for September are released tomorrow. The indicators look forward three months and include factory output, money supply, consumer credit and prices. The consensus is for a rise of 0.1 per cent.

West German industrial production figures could be released this week – possibly Thursday or Friday – with industrial orders released the following day. Both will give an indication of the strength of the West German economy.

The Bundesbank central council holds its regular bi-weekly meeting on Thursday and will discuss interest rates and the economic outlook. A change in West German interest rates appears unlikely.

In Japan, economic statistics due for release include a number of employment indices and housing start figures for September.

Other events and statistics (with MMS International consensus in brackets) include:

Today Bank of England final money supply figures and bill turnover statistics for September. Provisional analysis of bank lending for house purchase in the three months to September. US productivity and costs in three months to September.

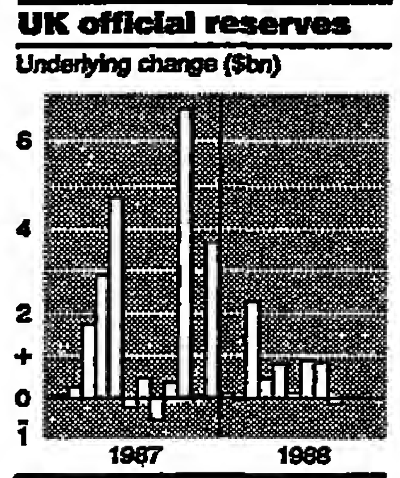
Tomorrow US construction expenditure in September.

Wednesday US new one-family homes sold and for sale for September (-1.7 per cent) and factory orders (-2.0 per cent). UK Department of Employment publishes Employment Gazette.

Thursday UK housing starts and completions in September.

UK official reserves

Underlying change ($bn)



WEST GERMANY 2

Reactions to the mood of change in the Soviet Union

Bonn faces tricky dilemmas in East-West relations

FOR REASONS of geography and history, the Federal Republic looks at the reforms under way in the Soviet Union with a mixture of fascination, fear and longing.

There is no doubting the firm political attachment of the Bonn government to the economic, defence and cultural integration with the West practised since the time of Adenauer. Mr Hans-Dietrich Genscher, the Foreign Minister, and the most forceful exponent within the Government of building bridges with the East, declares repeatedly that such links can only be forged if the West German bridgehead is firmly rooted in the EC and Nato.

Bonn's support for further EC integration, especially for the moves to forge a genuine internal market by end-1992, as well as for a closer defence relationship with France, is part of this bid to strengthen the anchor to the West. Chancellor Helmut Kohl went as far earlier this month as suggesting that the fledgling Franco-German troop brigade could eventually be developed into a full European army.

For all this, the mood of change in the Soviet Union, and the reaction this is producing in Moscow's satellite states in Eastern Europe, are throwing up a series of tricky dilemmas for Bonn.

The Federal Republic, a state born out of the ruin and dismemberment of the Third Reich, joined unequivocally the western political camp in the decade after 1945 above all because the unfolding of the Cold War made alliance with the US essential.

As an era dawns in which the demarcation line between the two world powers appears to blur, and where the US will almost certainly lose some of its relative international clout in the economic and defence fields, West Germany's position starts to look less clear-cut.

The once-constant electrical flux is now changing in the magnetic field between East and West in which Bonn has been suspended for 40 years.

Dramatic changes in the post-war political map of Europe almost certainly cannot be expected in the next few years. Preoccupied with his domestic reform course, and worried about a resurgence of nationalism within the Soviet empire and eastern Europe, Mr Mikhail Gorbachev is highly unlikely to encourage the notion that the old question of unity between East and West Germany could be put again on the political agenda.

What cannot, however, be ruled out is that Moscow will play on West Germany's emotional ties to the East to secure some extra trumps in the Soviet Union's overall power game. One prime aim in this strategy remains the prising away Western Europe in general, and the Federal Republic in particular, from the post-war partnership with the US.

There are already some warning signals. The defence consensus in West Germany has shown distinct signs of flagging. This is manifested in a sharp jump in the number of conscientious objectors to the conscript army, strong popular opposition to low-flying exercises by German and Nato military aircraft, and unrest in parliament about high-spending defence projects such as the four-nation European Fighter Aircraft.

Complaints about West Germany's lack of full sovereignty over its security arrangements, a state of affairs inherited from post-war occupation, the 1952 and 1954 Conventions, and the 1962 Nato Status of Forces Agreement, have flared up suddenly this summer.

A focal point crystallising opposition to military manoeuvres on German soil was the Ramstein air show disaster in August, which has claimed around 70 lives.

The dissatisfaction has been voiced, unusually and somewhat ominously, from both Right and Left. Thus Mr Egon Bahr, the arch East-West strategist of the Social Democratic Party, and the founder of the *Wandel durch Annaeherung* (Change through Convergence) approach of building ties with East Germany, now says – with some justification – that it is time for Bonn to put its cards on the table over its policies towards the German Democratic Republic.

Pointing out that the Federal Republic has still not signed a peace treaty with the Second World War victors because of the unresolved German Question, Mr Bahr calls "hypocrisy" Bonn's continued constitutional pledge to seek re-unification with East Germany and says progressive integration with the West has now made this impossible.

Mr Bahr warns darkly that latent public resentment about West Germany's post-war status could spill out on to the public stage. Similar warnings about West Germany's unfulfilled national aspirations and alleged discrimination against it from the Allies come from some Right-wing politicians and commentators – including from those who say that the superpower Intermediate Nuclear Forces (INF) agreement has left the Federal Republic dangerously exposed to Soviet blackmail.

Mr Rupert Scholz, the new Defence Minister, underlines the "sensitive psyche" of the Germans as a result of the outcome of the last war. He points out that the signs of wear in the country's defence consensus are linked directly to the ebbing of the perception of being threatened by the Soviet Union.

The good news, he says, is that the Kohl administration's support for disarmament has paid off. The bad news is that, with the image of the Soviet Union as an aggressor fading fast, there is not much left to underpin the Bundeswehr.

As befits a Berlin constitutional lawyer, Mr Scholz believes West Germany's security problems are made more acute by its insufficiently-developed statehood – itself a product of the country's long period of provisional status after the war. One of Mr Kohl's favourite sayings is that Bonn will tread no "special path" between East and West.

As a sign that Germany has learnt from the past, there is a general consensus that any effort to detach itself from the West and act as an intermediary between the two power blocs would end in disaster.

But at the same time it is becoming evident that West Germany's interests in the centre of Europe by no means overlap with those of its principal western allies. These natural interests extend beyond defence and security issues to questions of trade, technology and human interchanges with the East bloc countries, where Bonn in all cases has considerably more to win – and lose – than the US, Britain or France.

Especially in view of uncertainties about the priority the next US administration will give to European defence, West Germany may face a difficult balance in coming years in keeping its policies towards the East in harmony with its obligations to the West. And it would be highly surprising if the Kremlin did not have any contingency plans to exploit any discord between the two sets of objectives.

David Marsh

Picture by Ashley Ashwood

Hans-Dietrich Genscher, West Germany's Foreign Minister: a forceful exponent of building bridges with the East.

Rupert Scholz, the Defence Minister: he underlines the "sensitive psyche" of the Germans.

Picture by Terry Kirk

The Brandenburg Gate and the Berlin Wall, showing the East Berlin TV Tower in the background.

Social welfare reforms

Radicals remain disappointed

WEST GERMAN domestic politics in the 1980s could be described as a half-hearted attempt to roll back the perceived excesses of the 1970s. Putting a cap on the increasing costs of social welfare and returning the state to its rightful place in the "social market" system was the winning rhetoric in both the 1983 and 1987 elections.

To the dismay of many liberals and industrialists the coalition was too distracted by defence and foreign policy to make much progress in these matters in its first term. But in the past eighteen months the four reforms – tax reform, Bundespost reform, health reform and pensions reform – have moved centre stage.

The reformers have been disappointed, and all the reforms (pensions is still in embryo stage) have provided case studies in the immobilisation of coalition politics and the power of interest groups. The failure has not, however, been as total as some disgruntled radicals claim.

Tax reform, for example, may look rather feeble compared with experience in the US or UK, but by German standards the three stage reduction of DM11bn in 1986, DM14bn in 1988 and a further DM19bn in 1990 looks quite daring, even if it does only slightly reduce the average income tax burden and even if it is partly offset by the DM8bn increase in consumer taxes next year and the rising cost of pensions and health.

Similarly with reform of the antique telecommunications system. The legislation, now in committee stage and expected to become law by the middle of next year, falls short of privatisation or even competition on the basic telephone network. But, partly because of outside pressure from the EC and the US, the Bundespost has taken the momentous step of allowing competition on value-added services and procurement policy is slowly liberalising.

But all attention over the next few months will be on the two reforms, health reform and pensions reform, which are supposed to rein in the burgeoning costs of the welfare state – to both employer and employee – and prepare the ground for a rapidly ageing population at the beginning of the next century.

Reform of West Germany's generous but financially undisciplined health system has been tried several times without success in the post-war period and the latest proposals, which should become law early next year, are no exception. The negotiations over the proposals have, according to the magazine Der Spiegel, set "new yardsticks" for interest-group politics.

The total cost of the health system is currently some Dm 180bn per annum of which about DM125bn comes from the average 13 per cent of each employees salary – split 6.5 per cent employer 6.5 per cent employee – which is paid into the various health insurance funds.

Germany is not at the top of the international health expenditure league but it is close and currently spends about 9 per cent of GDP (below 5 per cent in 1960) on health. The salary contribution has risen from an average 8.2 per cent in 1970 to the current 13 per cent.

Health costs are one reason that employers face a non-wage cost bill per employee of 83 per cent of wage costs – up from 49 per cent in 1970 – and there is a wide consensus, which includes the trade unions, that something has to be done about this, particularly in view of the ageing population.

The main problem with the German health system is that the controllers of the bulk of the money, the health insurance funds, have virtually no control over the the providers of health. The Laender (states) are responsible – with some Federal Government help – for hospital building, while the insurance funds pay for running costs (doctors, nurses, drugs etc), but local political involvement means that it is virtually impossible for the health insurance funds to close hospitals, invariably an unpopular local decision.

The insurance funds also seem powerless to prevent administrators and doctors from pursuing their vested-interest to over-spend and over-treat – the average stay in a German hospital is 18 days compared with 7 days in the UK.

It became clear last year that a fundamental attack on the problem had once more been side-stepped when the coalition gave in to the Laender and agreed not to attack the hospital sector itself. That has switched the focus of savings to the pharmaceutical companies and direct patient contributions.

The pharmaceutical companies, thanks in part to their friends in the Free Democratic Party, have escaped more lightly. It is true that the coalition has proposed a fixed price system for some drugs but it has dozens of loopholes and the drug companies themselves will help to fix the prices. Patients, protected by the Christian Democratic Party's labour wing, will have to pay a little more for trips to hospital, for some drugs, and for dentures.

Few believe the coalition's claim that the savings will top DM14bn, of which DM7bn have already been earmarked for extra spending on care of the elderly. The health insurance funds believe the reform will make no savings at all once that extra spending is taken into account.

The attempt to spread the cost of reform in a fair manner is a feature of both health and pension reform, but the demographic statistics – which suggest that the current two workers to one pensioner will become one-to-one by 2030 – have frightened the political parties into a far higher degree of consensus over pension reform.

The coalition proposals which will be discussed next year and should become law in 1990 will aim to avoid the nightmare of having to accept either double the current contributions - already an average of 18.7 per cent of income split between employer and employee – or half the current pension in 2030.

However, according to the OECD, the worrying has been overdone. West Germany is one of the lucky countries in which total social spending will actually fall between 1990 and 2040 because the rising cost of pensions will be more than outweighed by savings in education, family benefits and health. And if that proves to be over-optimistic the immigration of young workers can easily be revived.

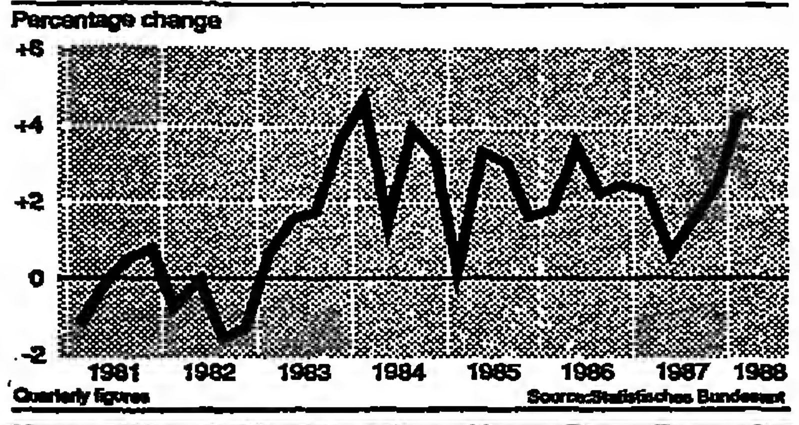
David Goodhart

THE ECONOMY

A near-vintage year after all

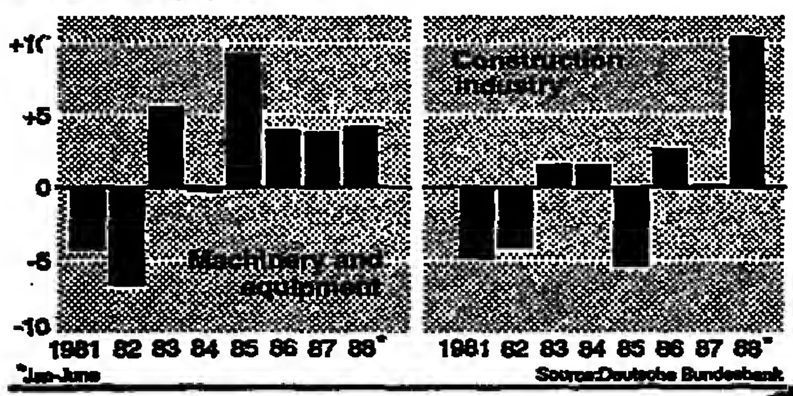
Real GNP

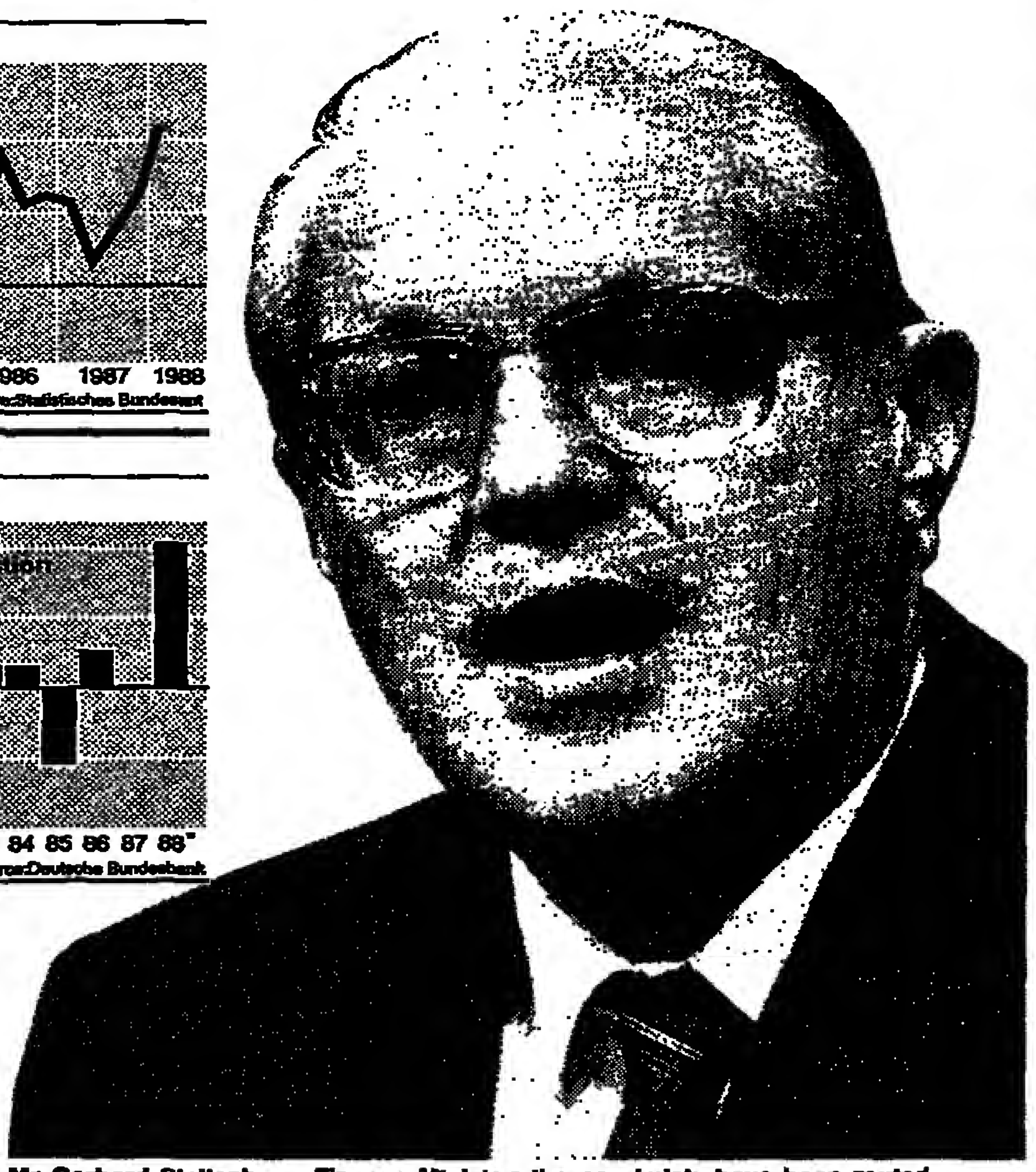
Percentage change



Investment levels

Annual % change (1980 prices)





Mr Gerhard Stoltenberg, Finance Minister: the pessimists have been routed.

ARE THE years of slow German growth over? There is no certain answer — above all, because *the Government*, industry and unions are still making heavy weather in liberating some of the more regulated areas of the economy responsible, in part, for the poor growth performance of the 1980s.

Even so, 1988 has turned out to be a near-vintage year. Despite the persistence of unemployment at around an average 2.3m this year, some economists (notably at the Bundesbank) are starting to believe that this year's anticipated 3.5 per cent growth rate is bringing the economy up against capacity limits.

In the wake of last October's stock market crash, many forecasters at the start of the year were predicting gross national product growth of only around 1 per cent for the Federal Republic this year.

The Government's January forecast of 1.5 to 2 per cent was widely regarded as optimistic. Nine months later, Mr Gerhard Stoltenberg, the Finance Minister, can say that — at least for the moment — the pessimists have been routed.

The Finance Ministry expects some slowdown in 1989, but believes expansion will remain above the 2 per cent level.

PUBLIC SECTOR DEFICIT
As a percentage of GNP

1981	-4.9
1982	-4.4
1983	-3.2
1984	-2.6
1985	-2.1
1986	-2.1
1987	-2.5

Source: Statistisches Bundesamt.

Three basic factors are behind the much improved trend. The sharply better performance of the world economy and the real (inflation adjusted) depreciation of the D-Mark this year have sharply boosted demand for German *exports in most countries*, above all in Europe.

This year's income tax cuts, part of Mr Stoltenberg's three stage tax reform programme, together with expansionary growth in the money supply over *the past few* years, have maintained consumer incomes and spending power.

Finally, the latest fall in world energy prices could not have come at a more fortuitous time. Continuing favourable West German terms of trade offset any danger of inflation creeping up much beyond the 2 per cent level next year, even after the round of consumer tax increases Mr Stoltenberg is planning for 1989 to bring down the federal budget deficit, temporarily inflated to around DM38bn this year.

Much of West Germany's investment boom in industrial plant is linked directly or indirectly with record export levels

Capping of inflation after three years of near price stability is vital for business and consumer confidence — and also means that next year's tax increases will have less of a dampening effect on the economy than originally feared.

The three factors together have produced an almost *totally unexpected upsurge in* capital investment which has taken over from consumer demand as a prime motor driving the economy. Plant investment rose 8.5 per cent in the first half of the year from the depressed levels of 1987, and could show an overall 1988 increase of around 7 per cent.

Much of this investment boom is linked directly or indirectly to exports. After a 10 per cent rise in the foreign trade surplus in the first eight months of the year, the Federal Republic is heading towards a surplus for the whole year likely to exceed the record DM 117 bn last year.

Because real import growth, for the first six months at least, continued to outstrip slightly real increases in exports, the Government and Bundesbank can maintain that the country is continuing to play its part in the international balance of payments adjustment process.

The problem is, however, that, because of the terms of trade improvement, the nominal external surpluses — both trade and current account — are increasing to levels which would have been unthinkable a few years ago.

The Bundesbank is, however, highly unlikely to maintain the accommodating monetary *stance it has kept up for* the last few years. So the question for the end of 1988 and for 1989 is whether these capital flows will be reversed as the foreign exchange markets become convinced that the D-Mark is under-valued.

This year's exchange rate constellation, especially within the European Monetary System, which was last realigned in January 1987, has boosted exporters' competitiveness while still dampening imported inflation. This favourable picture is not likely to be repeated in 1989.

David Marsh

Long-term views on the economic front

The price of success

HAPPY THE country whose clothes fit. Dean Acheson's quip about Britain — that she had lost an empire and not yet found a role, was a way of making the point that World War Two had left her with an international costume too big for her reduced physique.

The Federal Republic of Germany today gives rather the opposite impression: that *of a country bursting* at the seams. Chancellor Helmut Kohl, a child of his age, lets it be known every year how many *kilograms he has shed* during his holiday. But the country continues to put on weight. This shows up plainest in the economy.

A few months ago there was talk of stagnation, ossification and sclerosis. West Germany, it was said, had entered the afternoon of its prosperity, and the shades of evening were creeping on.

Now we read of a three per cent growth rate and another massive current account *surplus this year*. The consequences spill out over the country's frontiers — and not just in the shape of foreign tourism and second or third houses abroad.

If one sign of this surplus energy is the mountain of West German chemical waste discreetly accepted by the GermanDemocratic Republic, *another is the West German* money spent on filters for the GDR's rivers and chimneys.

One way or another, the world economy is able to absorb the waves made by a country with a population only 2 per cent greater than that of the UK, but a Gross National Product roughly double.

It is in the political area that the ripples look potentially more serious. Like Japan, and for the same obvious reasons, Germany in 1945 was 'put into short trousers.' A surprising number of the special features of that period still remain, clearly visible under the dignified proscenium of theFederal Republic.

The country's political system was designed to place obstacles in the path of a strong central power, and that is what it does. Proportional representation creates coalitions, necessitating compromise; the Federal structure introduces a second echelon of checks and balances;

But there may be cases where the brakes are too strong for the engine. One example could be the handling of the current wave of applications for 'political' asylum. The risk is that the system itself may become discredited if it does not show itself flexible enough to deal with such situations. And the system is not yet so deep-rooted as to be able to brush such a challenge aside, as *democracy did in Britain* during the period when the word 'ungovernable' crept into so many editorials.

Can one apply the same thought to foreign policy? Here we move into the territory which Helmut Schmidt had in mind when he used to warn that the Federal Republic must steer between two markers, Berlin and Auschwitz — meaning it must never forget that the German nation is divided, nor what it did when it was last united. The special status of Berlin and the responsibility of the four major victors of *1945 for* 'Germany as a whole' — these are clearly residual penalties for having lost the war.

'West Germany is a country bursting at the seams'

But the renunciation of 'atomic, bacterial and chemical weapons' in the quaint terminology of 1954, was an act of will by the government and parliament of the Federal Republic; the *refusal to contribute troops* to peace-keeping operations outside Europe is as much a political as a constitutional decision; and the super-cautious policy on arms exports is simply a question of expediency and morals.

On the whole, the effect of these shackles on the Federal Republic, imposed and self-imposed, has been benign. They have contributed to stability in Europe; they have helped to make the German passport as treasured a possession today as it was shunned in 1945; and they have allowed four-fifths of the German nation to reach a level of political liberty and material well-being *unparalleled in its history.*

And what of the other fifth? The answer must depend on what view one takes of the prospects for Central Europe in the present situation. During the last sixth months two former National Security Advisers - Dr.Brzezinski, in Tokyo, in April; and Dr. Kissinger, in a recent article in Newsweek magazine — have speculated on this theme. Are we now approaching a time when it may become possible to think of taking practical steps towards the objective hallowed by so many postwar communiques — "*overcoming the division of* Europe"?

One possible route in this direction could be trade, and the opening of relations between the European Community and the countries of Eastern Europe creates a framework.

Given continued progress in arms control, and inrefining the concept of mutual security, is it possible to imagine some formula for Central and Eastern Europe which would *correspond more to the* aspirations of the peoples concerned, but not damage the real security interests of the Soviet Union?

No country can be more keenly interested in such questions, and in possible answers to them, than the Federal Republic of Germany.

They are starting to be asked at a time when the European Community, the traditional focus of West German aspirations, looks more than ever doomed to concentrate on thematerial, rather than the emotional, dimension.

If a tug of war were to develop between the West European and the Central European vocations of the Federal Republic, it could test the strength of those shackles. The potential clash is one which has existed ever since Dr.Adenauer set his compass westwards. But events in East and West could before long combine to give it a new actuality.

Julian Bullard

The writer, Sir Julian Bullard, was British Ambassador to Bonn between August, 1984 and March, 1988.

COMPANY PROFITS

Key questions

THE PROFITS of West German companies – already at a high level – are set to advance by ten per cent or so this year and by a further 5 per cent in 1989.

How can this encouraging trend be reconciled with widespread concern that high wage costs, *high corporate* taxes and bureaucratic red tape might in future seriously impair the country's competitiveness?

If these fears prove justified, they are bound to have adverse effects on companies' prosperity and ability to invest. Few of these *arguments are actually* well-founded, in my opinion; what is more, a number of positive aspects are being overlooked.

West German exports are at a record high. The country remains the world champion in exports, *in dollar terms*, ahead of the US and Japan, which hardly suggests that West Germany is losing its appeal as a business location.

Yet it is also true that direct German investments abroad have surged: over the 1985 to 1987 period, they totalled DM51bn, almost double the DM27bn recorded for the three preceding years. By contrast, domestic capital spending has been less buoyant.

But is the scale of these foreign investments really evidence of a deterioration in West Germany's attractiveness as an industrial site? The expansion of German direct investments abroad is in no way alarming. Rather, it reflects the country's ever-*stronger integration into the* world economy.

It is only natural for companies to try to secure their trade-built market shares abroad by increasing their investments on the spot. This is underlined by the remarkable correlation between a sector's export strength and its direct foreign investments. A company whose sales in another country reach a certain level may find it more convenient to set up its own ser*vice network there and to* invest in adequate distribution channels.

Perhaps it will also decide to start shifting some production facilities, too, so as to move closer to the foreign market, thereby reducing transport costs, or avoid existing or impending protectionist import legislation.

The appreciation of the D-mark, too, has encouraged direct investments in foreign markets. It has also made mergers and acquisitions all the more attractive.

Another motive for capital spending abroad *is* the desire *of firms to protect themselves* against exchange-rate fluctuations.

Admittedly, West Germany has lost some of its appeal as a target for direct investments from abroad. The reason most frequently cited are the coun*try's apparent unwillingness to* tackle the issue of insufficient labour mobility, the allegedly strong union influence through co-determination, and inflexible collective wage agreements.

Despite good *profits for most* West German companies, there is widespread concern over the *future impact of* high wage costs and corporate tax levels

Yet it is precisely the labour factor which makes the Federal Republic a good location for business, since one of its foremost advantages remains its 'human capital.' Its highly efficient apprenticeship system and soundly-qualified skilled workforce are valuable assets. They are complemented by broadly-based corporate know-how and a substantial innovation potential as well as the flexibility and creativity characteristics of is its mostly small and medium-sized businesses.

In the eyes of its critics, however, West Germany pays a high price for its social peace. It is worth a brief look at the facts:

☐ Only in Switzerland is the overall burden of labour costs greater than in West Germany. But this is not so much due to increases in gross hourly wages as to the sustained rise and relative weight of indirect labour costs. Last year, for instance, German manufacturers had to provide an extra *DM83.10 for every DM100 of* nominal salary.

☐ It is also true that reduced working hours and a series of public holidays have made West Germany the nation with the shortest collectively-negotiated working periods in the world.

However, we cannot compare wage costs around the globe without taking into account the differences in productivity. Countries where the latter is high can afford both to pay higher wages and to grant more leisure time.

Nor should we overlook the different economic structures and currency parties – although strongly fluctuating exchange rates distort any international comparison.

A company's choice of business *location is also influenced* by corporate taxation. An international comparison shows that only Austria has higher corporate tax rates than West Germany. But German accounting rules afford greater leeway than those of most other countries for reducing taxable profits, and the situation will also be somewhat improved through the tax reform due in 1990.

The innovation potential of an economy, its degree of technological sophistication, and the know-how it produces are all largely determined by the size of its research and development outlays. Here, West Germany occupies a top position, internationally. The number of its patent registrations is *among* the highest in the world.

All in all, it seems obvious that neither the marked rise in German direct investments abroad nor the relatively sluggish growth in domestic capital spending indicate that West Germany has lost its appeal as an industrial location.

As regards the problem of corporate taxation, the pending tax reform should bring some relief – although the planned measures are still insufficient when seen in an international context. What is also required are measures to ensure greater market flexibility, in order to strengthen West Germany's competitive potential with a view to the European market of 1992 and beyond.

Ulrich Ramm

The writer is Chief Economist, Commerz Bank.

The death of Franz Josef Strauss, (right), leader of the Bavarian Christian Social Union, casts a long shadow. Above: Mr Otto Lambsdorff, leader of the liberal Free Democratic Party.

COALITION POLITICS

Benefiting from economic growth

THE BEGINNING of October brought an important leadership election and an even more important death to enliven the complex, but usually immobile, face of West German coalition politics.

Yet, oddly enough, the death of Mr Franz Josef Strauss, leader of the Bavarian Christian Social Union, and the election of Mr Otto Lambsdorff to lead the liberal Free Democratic Party, although momentous events for the two minor parties in the three-party Bonn coalition, may have the effect of cancelling each other out; at least for short-term coalition and electoral arithmetic.

The departure of Strauss casts the longer shadow but it is difficult to point to specific areas of policy which will be transformed by the absence of the Bavarian Premier who, despite foregoing a cabinet seat himself in recent years, still had immense influence in Bonn – exercised through the CSU's five cabinet seats and Bavaria's potentially decisive influence in the Bundesrat, the upper house of parliament.

Bavarian interests may henceforth be pressed on the coalition in a less truculent way, and the aerospace and nuclear industries have lost an energetic spokesman.

But in the defence and foreign policy fields where Strauss for many years ploughed a lonely nationalist furrow – railing against both the Social Democrats and his own coalition partners – his voice had already lost its distinctive authority.

Nevertheless he was a political phenomenon – a more successful version of fellow classics scholar, Mr Enoch Powell in Britain – who was able to *cast a spell over many right*-wing voters while violently repelling most liberals and socialists. Without the spellbinder, will the right-wing vote fragment?

In Bavaria itself, Strauss was aware of quite large potential support for parties of the far-right and did his best to draw that support into the CSU. The CSU is not a one-man show and will continue to control Bavaria for the forseeable future but without Strauss it is likely to lose some voters to the right and as its 9.8 per cent of the national vote slips so will its influence in Bonn.

The haemorrhage to the right is likely also to effect the Christian Democratic Union, the dominant party in the coalition, which was thought to pick up many right-wing voters because of the alliance with its Strauss-led Bavarian sister party. That may force Mr Helmut Kohl, the Chancellor and CDU leader, to shift his own, largely centrist, party to the right – at least on non-economic issues – to try to plug the hole left by Strauss's death.

Looking further ahead, it is possible to imagine tensions between the two Christian parties and even an end to the agreement which has kept the CDU out of Bavaria and the CSU out of the rest of the Federal Republic.

Without Strauss, the CSU will lose its national profile and may feel the only way to claim it back is to start picking up the former CDU-voters outside Bavaria who are expected to drift off to the parties of the far-right. Organising nationally would be a high-risk strategy for the CSU as the CDU would presumably retaliate by organising in Bavaria.

In the short-term, however, the coalition ought to be strengthened by the departure of Strauss who was an important cause of the petty squabbles which have damaged its image over the past year. But the Chancellor's celebrations will be muted, for no sooner has one powerful troublemaker left the scene than another one – Lambsdorff – returns.

Lambsdorff is unlikely to cause trouble in a spiteful way over trivial things, as Strauss was increasingly prone to do, and he is almost certain to take his party into the next election at the end of 1990 supporting a continuation of the existing coalition.

However, as much of the FDP's visibility and many of its votes came from being the opposite poll to Strauss in the coalition, the party will need to be in outspoken mood over the next few years merely to survive. If the CDU does move to the right to hang onto Strauss voters the main axis of conflict within the coalition may become CDU/FDP rather than CDU/CSU.

There are plenty of areas where conflict can be stimulated. The CDU has recently had a relatively easy ride from the FDP over the half-heartedness of its attempts to put the market back into the 'social market' economy; that may now be over. The FDP may also rediscover its concern for civil liberties if Kohl becomes too Straussian.

Nonetheless, the conventional wisdom is that the three coalition parties will go into that election, more or less united and will emerge victorious but with a smaller majority. Many observers then expect another *Wende* (change of governing coalition) in about 1992, with the FDP swapping back to the Social Democrats.

In the defence and foreign policy fields, in particular, Franz Josef Strauss for many years ploughed a lonely nationalist furrow.

The election of Lambsdorff does not rule out a return to a Social Liberal coalition, despite the fact that he helped to destroy the last one and remains a fierce free-marketeer. Some Social Democrats are even claiming that the Lambsdorff election is good news because as a conservative liberal with considerable personal authority he – unlike a more left-wing liberal – could lead another *Wende* without splitting his party.

Such a shift, or indeed any return to power for the SPD, probably depends on a clear victory for the ideas of Mr Oskar Lafontaine, one of the party's deputy chairmen and its leading controversialist.

His thoughts on flexible working time and unemployment have the virtue of being supported by most employers which helps provide the party with a new appearance of economic competence, albeit at the cost of conflict with the unions.

However, Lafontaine's ideas may not prevail, and despite the party's new confidence and good showing in the polls, it remains divided and confused about the way forward. A show of unity over the innovation of a 40 per cent quota for women in party posts (including MPs) cannot disguise that. Its defence policy also remains considerably to the left of the FDP's - at least on paper.

Nevertheless, a good showing in the upcoming Laender elections – in Berlin early next year and then North Rhine Westphalia, Saarland, Lower Saxony and Bavaria in 1990 – could arm the SPD with fresh authority (especially if it wins control of the Bundesrat) even if it has not sorted out its ideas.

One idea that is almost certain not be revived is an SPD-Green coalition. The Greens may continue to poll 6 to 8 per cent of the national vote (although some leading Greens are starting to doubt that thanks to the ferocious rows in the party), but until the 'real' faction finds a way of taking over the Greens, it will remain a radical pressure group, patronised as 'refreshing' and 'useful' by mainstream commentators.

Meanwhile, the coalition, which was looking so ragged over the summer months, appears to be benefitting from faster-than-expected economic growth and a relaxation in the anxious debate about Germany's economic future.

The major cabinet reshuffle this autumn will now not materialise, unless the new CSU leader demands a place in cabinet. But the calm, like the turbulence, is only cyclical.

David Goodhart

Profile: Prof.Ulrich Gabler

Industrial pioneer

INGENIEURKONTOR LUEBECK, (IKL), one of the most advanced submarine-design companies in the world, sits in an out of the way spot by the portside in the north German town of Luebeck.

The company's founder is Prof Ulrich Gabler, a 75-year-old former World War Two submarine ace and master engineer. He sold the company at the end of 1978, but keeps a fatherly eye on it in a consultancy capacity which brings him to the IKL offices for two or three hours a day.

IKL, Prof Gabler reckons, *has been responsible for* designing about half the conventional U-boats conceived after the Second World War.

Starting with the delivery in 1961 of three 201-class submarines for the West German navy, IKL has designed 105 military submarines for 16 countries. Customers range from Israel, India, Turkey and Greece to a batch of Latin American nations including Brazil, Chile and Argentina.

IKL's best-selling model is the 1,200-1,400 tonne 209-class, constructed by its main partner in the submarine field, the Kiel-based Howaldtswerke shipbuilders.

IKL has also been at the centre of a long-running controversy about clandestine delivery of submarine blue-prints to South Africa, in which the Bonn government is alleged to have contravened United Nations guidelines on military sales to Pretoria.

The IKL group has a turnover (including an engineering affiliate, Maschinenbau Gabler, which makes special submarine equipment and industrial processing machines) of around DM60m. IKL employs 380 people, with a further 220 working at Maschinenbau Gabler.

Prof Gabler sold his company to three senior staff members, allowing IKL to continue on its traditional path. Recalling that the sales prices was *DM3.5m, he says, "I could have* sold it for three times as much to the Americans, but I wanted to keep it independent."

IKL's roots stretch back to the beginnings of the submarine age. Its origins were closely tied up with the Krupp steel and armaments group which started submarine construction before World War One.

After the war, since German U-boat building was forbidden by the Treaty of Versailles, Krupp, through its Germaniawerft subsidiary, set up a Dutch company in 1922, employing its leading submarine engineers. It was responsible for equipping a number of navies, including Turkey, Finland, Russia, Sweden and Romania.

The company was established in Bremen under the name of Ingenieurkontor fuer Schiffbau (IKS) in 1935-36 as Hitler's re-armament drive picked up steam. It was moved later to Luebeck.

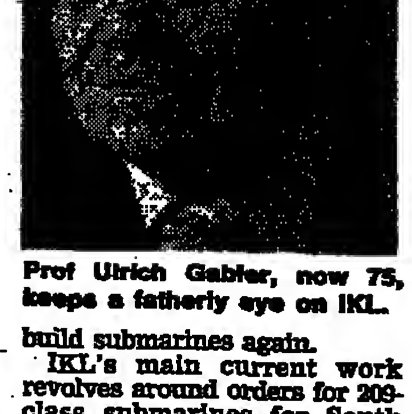
Now an outpost next to the closed border of East Germany, the town, as Prof Gabler recalls now, at that time had a central position on the long German coastline.

Prof Gabler joined the company in 1938 but was called into active navy service when the war broke out. As a second-in-command submarine engineering officer, he was, he says somewhat ruefully now, "something of an ace," respon*sible for torpedoing 36 ships.*

Prof Gabler was brought into the naval construction effort in 1942. He had an important role in developing new and more efficient submarine types – notably the 21 and 23 classes – brought into service at the end of the war. This was the breakthrough to air-independent propulsion systems enabling the boats to remained submersed for far longer periods – the precursor of the modern military submarine.

IKS was liquidated in 1946 – but Prof Gabler set up IKL on the same day and with the same personnel to carry on the business.

After spending the next decade on civilian work such as construction of masts for wireless telephones, the turning point came in 1956 as Germany was officially allowed to build submarines again.



Prof Ulrich Gabler, now 75, keeps a fatherly eye on IKL.

IKL's main current work revolves around orders for 209-class submarines for South Korea and Turkey. It also is developing a new 212-class boat for the German navy, due to be delivered in 1995, assuming that German defence spending cutbacks do not hold up the schedule. And it will also be supplying the know-how for a new German-Israeli submarine deal to be financed largely by the US.

The submarines seem likely to be built in both Germany and in Haifa. The transaction has already attracted some parliamentary criticism on the grounds that West Germany should not deliver arms to areas of tension. Whatever way the deal is eventually negotiated, IKL's design involvement – in line with its constant place in 60 years of submarine history – looks assured.

David Marsh

Workers have the highest pay and best fringe benefits in Europe

Unions make notable gains

West German trade union leaders worry most about the European market in 1992 and the issue of flexible working time. Around 42 per cent of workers are in unions.

THE WEST GERMAN trade union movement ought to be feeling reasonably pleased with itself. Despite more than six years of a centre-right coalition Government, committed to de-regulation and free markets, the strength of the unions and the percentage of unionised workers (about 42 per cent) remains largely unchanged.

That is perhaps less surprising than it seems given the moderation of German unions and the extent of their integration into the corporate and social systems. Coalition leaders have only rarely adopted strongly anti-union stances and have generally avoided anti-union rhetoric.

A recent public row between Mr Ernst Breit, head of the trade union confederation the DGB, and Mr Helmut Kohl, the Chancellor, consisted of Mr Kohl complaining that he had been unfairly characterised as an enemy by the unions in their propaganda for a week of action against the Government. Petty stuff.

Yet while it is true that the climate is far more favourable than in most industrial countries, the German unions still have some notable gains under their belts. In 1984, as the miners began their action in Britain, I G Metall, the giant metal union, became the first European union to win a major strike for almost a decade.

Following that successful battle for the 38.5-hour week, several other unions have slipped through the breach and now well over 50 per cent of the workforce – about 12m workers – are on a sub-40 hour week, some down to 36.5 hours. In the past year significant working-time reductions have been won by the metal workers (again), chemical workers, printers and public service workers.

Employers like to point out that the pay rises have usually been modest and all the above-mentioned agreements are for three years – unusual in Germany, which could squeeze workers living standards if inflation creeps up.

The three-year deals release trade union officials, as well as businessmen, from time consuming negotiations – but despite the unions' apparently rude health a large part of the trade union elite seems to be using that extra time to worry about the future.

The two items at the top of most worry lists are the European market in 1992 and flexible working time. The German trade unions understandably fear that with the highest pay and best fringe benefits in Europe, they have most to lose from the greater mobility of capital.

Union analysts remain confident that Germany will keep most of the skilled labour and high-value-added jobs, because of their training system, but fear that hundreds of thousands of semi-skilled jobs will disappear to relatively low labour cost countries such as Spain and Portugal.

Their fears are probably exaggerated. Multinationals, especially in the car industry, have already shifted production southwards and 1992 is unlikely to make much difference. Also the rapid modernisation of Spain and Portugal is likely to bring an equally rapid increase in labour costs, thus undermining their advantage as industrial locations.

It is true that 1992 may encourage many smaller companies, perhaps component manufacturers, to follow the multinationals. But without the international experience of the larger businesses they will need a major incentive; even multinationals sometimes find life unpredictable in rapidly developing countries. Volkswagen, for example, has found to its dismay that anarchists have taken over the union at its Spanish plant producing the Polo.

The unions are, however, right to worry that employers can more convincingly threaten to move and can play different national plants off against each other – as, I G Metall claims, General Motors has already done to force weekend working at one of its German plants.

To prevent this, the bigger unions are trying to rekindle the old idea of trans-national works councils, in addition to the highest possible EC-enforced social and workplace standards.

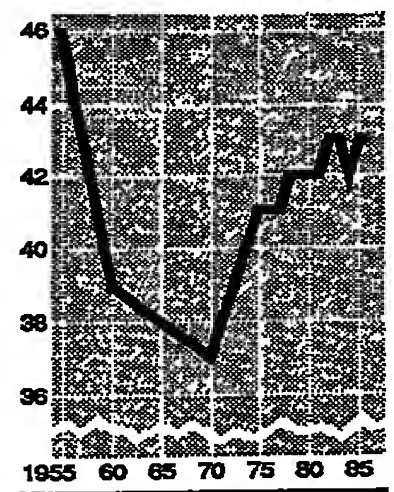
But, again, employers in capital intensive industries would be seeking more flexible use of expensive labour and capital quite regardless of 1992. In Germany the bigger employers – such as IBM, BMW, General Motors – are currently winning the battle on weekend working, but that is partly because they are able to make generous offers to lure the local works councils from union head office.

That split is less common in Germany than in many other countries and may be a worrying development for some union head offices. But it also displays the flexibility of the system, and in any case the whole union movement is divided about weekend working. Some unions like I G Metall and I G Druck – backed by the churches – see it as a serious blow to the social and family life of the average worker, others, like I G Chemie, as a sign of progress which might also help create more jobs.

I G Chemie has recently begun projecting itself as the new model union of moderation and has a ground-breaking deal giving blue collar workers the same fringe benefits as white collar workers to show for it.

Union membership

% of non-agricultural employees



But I G Metall and the more combative unions frown on some of their other deals. A co-operative attitude is perhaps understandable in one of Germany's most prosperous industries, but is creating an unusually wide gulf between left and right within the DGB.

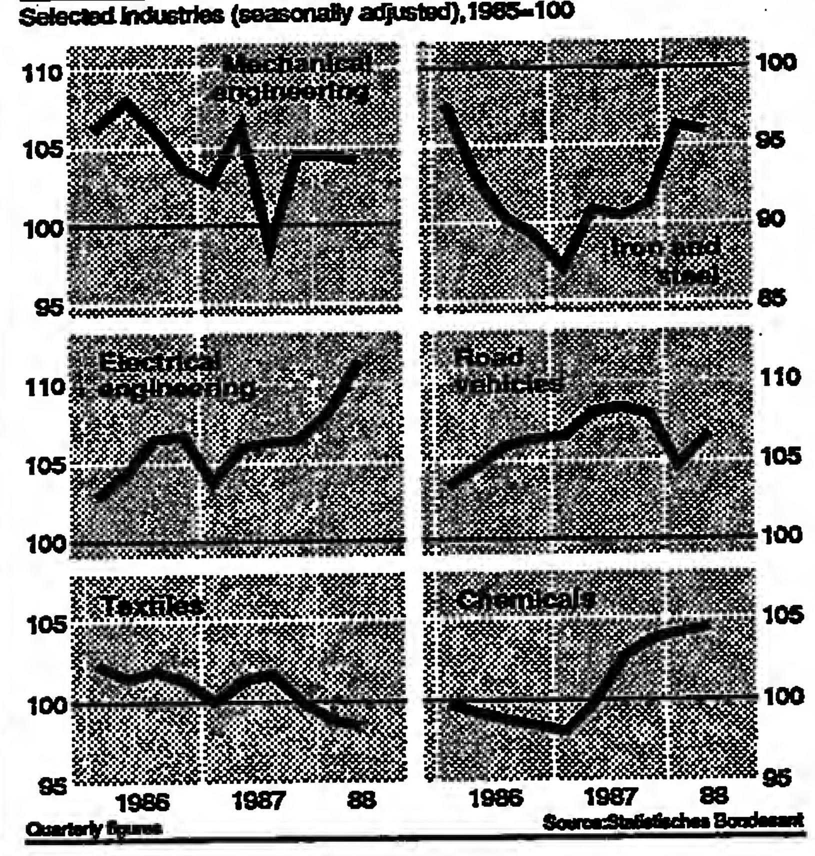
Other reasons for union anxiety include slightly tighter laws on "warning strikes" and increasing hostility from one wing of the Social Democratic Party. But to a trade unionist from almost any other country the current state of the unions in West Germany would be a distant aspiration.

David Goodhart

☐ **Right: workers at Bayer carry out research into crop protection in the company's agrochemicals centre in Monheim.**

Industrial production

Selected industries (seasonally adjusted), 1985=100



Plans for a possible Daimler-Benz/MBB grouping

Big decisions awaited

MAKE-OR-BREAK time is rapidly approaching for the long-discussed deal under which Daimler-Benz, the motor and engineering conglomerate, is planned to take a 30 per cent stake in Messerschmitt-Boelkow-Blohm (MBB), the main West German aerospace group.

Following a series of meetings between top Daimler officials and the Bonn Government, agreement in principle has been reached on a means of lowering Daimler's exposure to the financial risks of MBB's participation in the European Airbus project.

The Bonn Cabinet is due to discuss the project in November, in time for the necessary additional public expenditure on the Airbus to be incorporated into budgetary planning for 1989.

The wrangle over financing the Airbus risks is however simply one element of controversy over the mammoth takeover. A Daimler-MBB grouping would create one of the world's largest and most diversified engineering and technology concerns with overall turnover of DM 75 bn – making up more than three per cent of West Germany's gross national product.

Daimler has already gone on a buying spree in the last few years, swallowing the engine-maker Motoren-und Turbinen-Union (MTU) as well as taking majority stakes in the AEG electricals group (important business in radar, communications and military electronics) and the Dornier aerospace company.

Counting also MBB's stake in Bavarian tank maker Krauss Maffei (which at present has an arm's length relationship with MBB, above all because the two companies' chairmen do not get on), the Daimler-MB group would stretch across all sectors of the defence industry, from tanks, trucks and small naval ships to radar missiles, aero-engines, helicopters and fighter and transport aircraft.

The Daimler-MBB concern would still not be Europe's largest armaments group. That role would continue to be taken by British Aerospace, which has nearly doubled in turnover, by a mixture of business expansion and acquisition, during the last five years. But the prospective group's dominance of the West German defence sector has been causing some headaches at the Bonn Defence Ministry in view of the concentration of key contracts which would be placed in Daimler-MBB's hands.

The Defence Ministry welcomes the proposed link-up on overall strategic and economic grounds. But the group would command about 70 per cent of the development work of the roughly 150 future military equipment projects on which the Ministry is working – led by the big aerospace ventures represented by the European Fighter Aircraft and the Franco-German combat helicopter.

Daimler-MBB companies would receive slightly more than one third of current Bonn military procurement spending. But the procurement share would rise to 60 per cent in coming years as the aerospace ventures come on stream.

Although costs in most of these ventures will be held down as a result of international collaborative arrangements, the Ministry is clearly worried that the creation of Daimler-MBB would limit competition on the German market.

This is one more reason by Prof Manfred Timmermann, the Defence Ministry state secretary in charge of weapons procurement, has been redoubling efforts lately with other European governments to try to speed up efforts towards forming a genuine Common Market for armaments across European borders.

David Marsh

Bankers switch from securities to less glittery activities

Tax threat leads to capital flight

IT HAS been a year of surprises for West Germany's banks. Hard on the heels of last October's shock announcement of a 10 per cent withholding tax on most savings and investments from the beginning of next year, came the stock market crash which hit German equities particularly hard.

Bankers have now largely recovered from both events, but the ripples are still being felt.

The threat of withholding tax has prompted an unprecedented flight of capital from Germany, with some DM60bn leaving the country in the first six months of this year alone. While part of the outflow derives from the normal investment needs of German companies abroad, much is attributable to a flight of capital by German investors.

Luxembourg has been the main beneficiary — reflected in the extraordinary growth of a number of public investment funds there. Eurorenta, the Luxembourg-based fixed-income fund set up by Deutsche Bank in January, had reached DM6.4bn by late of September. Though the rate of growth has slowed, some DM15-25m is still pouring in daily, according to its managers.

A second consequence of the withholding tax has been to split the domestic and offshore Deutschemark capital market — precisely the situation the Bundesbank hoped to be rid of when it dropped coupon tax earlier in the 1980s.

As a result of the planned withholding tax, borrowing costs on the domestic DM market have risen, meaning that foreign-domiciled borrowers can now raise DM funds more cheaply than the Federal Government itself. The most striking anomaly created came in late July, when the Bank for Foreign Economic Affairs of the USSR raised a DM500m DM Eurobond at finer terms than available to Bonn itself.

While withholding tax has led to precisely the consequences the Bundesbank foretold, the anger among senior central bankers at not being consulted in advance about the new tax has largely subsided. Yet although hard to oppose on moral grounds in view of the alleged widespread tax evasion by domestic taxpayers, withholding tax remains a serious barrier to those supporting *Finanzplatz Deutschland* — Germany as a financial centre.

As to the crash, German equities remain well below their pre-October 1987 levels. However, the market has recovered of late thanks to higher than expected corporate profits and domestic economic growth and the stable dollar.

Thus, banks' profits, which tumbled last year on account of the substantial write-downs on equity portfolios, should improve in 1988. Many banks' interim results at the end of June were already up, although making meaningful comparisons from their half-year figures is notoriously difficult.

A large number of banks have used the rise in share prices to take profits on their portfolios, reflected in the substantial improvements in their income from trading on their own account in their interim results. And the upturn in the domestic economy has helped their mainstream credit business too, with lower lending margins often being more than compensated by a higher volume of business.

However, one of the longer-run consequences of the crash has been a shift away from the securities business towards more traditional forms of commercial banking. For the time being at least, the gloss has gone off investment banking, and a new emphasis has been placed on less glittery activities like mortgage lending and credit cards.

But two of the biggest current talking points in German finance stem neither from the crash nor from withholding tax. Spurred by domestic competition and, more distantly, the prospect of the European Community's planned free market in financial services after 1992 or thereabouts, German banks are going through a marked consolidation phase. And some are looking also more closely at alliances with other financial institutions, including insurance companies.

The banks are going through a consolidation — or link-up — phase

The pressure for consolidation has been seen most evident in two sectors: the Landesbanken (state banks) and co-operative banking movement. In both cases, the banks work on a state or regional level, and attention has now focused on whether further horizontal links might not be desirable in order to create even bigger operations so as to obtain synergies and economies of scale.

Leading the way are the merger talks between Westdeutsche Landesbank (WestLB), based in Duesseldorf, and Frankfurt-based Hessische Landesbank.

WestLB is already Germany's fourth biggest bank. Together, the combined unit would form the country's second biggest bank, with total assets of about DM227bn.

Meanwhile, interest on the co-operative banking side has centred on the initiative by Mr Helmut Guthardt, chief executive of Deutsche Genossenschaftsbank (DG Bank) to merge with the country's five regional co-operative central banks. If it comes off, that combine would have total assets of some DM215bn.

The approach of 1992 has given all the merger talks an added momentum. The Landsbanken in particular are trying to avoid the danger of being squeezed from below by the country's biggest city savings banks — to which they partly belong — while meeting the ever-rising challenge from the big commercial banks.

Whether any of the discussions will come off remains an open question. The idea is not new, but the chances of success are looking brighter than ever before. However, political opposition from state governments — which normally own a half-share in their state's Landesbank — cold feet among the smaller partner in any merger, and legitimate considerations as to whether the Landesbanken may not be better served by improving their links with local savings banks may yet scupper any deals.

Despite the many uncertainties thrown up by 1992 and the likelihood earlier still of even greater competition from other financial services groups, sentiment in banking circles remains largely positive.

One strong sign of that is the continuing arrival of new foreign investment banks in Frankfurt. The Japanese have taken up the slack of late. Three new investment banking operations are being established between September and the end of this year, with another three likely to go ahead in early 1989. And more Japanese banks are said to be waiting in the wings.

Business may be slow at present, but the Japanese newcomers are showing a traditional emphasis on longer-term prospects. Their confidence may not be misplaced.

Among the important new developments in German finance are the planned arrival of the Deutsche Termin Boerse (DTB), Germany's new financial futures and options exchange, at the end of next year. With futures and options trading all but impossible in Germany at present, the DTB will plug an important gap in German financial services.

In the meantime, the authorities are continuing to take smaller steps to improve the domestic capital market and keep competitive with foreign financial centres.

While the Frankfurt stock exchange — by far Germany's leading bourse — is nearing the end of its heavy investment programme, the fixed-income market has recently been bolstered by the introduction of continuous trading in leading government bonds on the stock exchange and the removal of the barrier on foreign purchases on *Bundesobligationen* or five-year federal bonds.

Haig Simonian

Bundesbank council's only woman steps down

THERE WAS astonishment on three counts in October 1976 when Mrs Julia Dingwort-Nusseck, then a senior editor and head of political television broadcasting at Westdeutsche Rundfunk (WDR), in Cologne, was appointed to the presidency of the Landeszentralbank (state central bank) in Lower Saxony, as she herself recalls.

First, Mrs Dingwort-Nusseck was a journalist. That was forgiveable; after all, Mr Karl Otto Poehl, who was to become head of the Bundesbank little more than a year later, also started off in the same line of business before moving to the civil service.

Second, she was not from Lower Saxony, but was born near Hamburg, and then moved to work at WDR, the state broadcasting organisation in North Rhine Westphalia, just to the south.

Yet "worst of all" she was a woman, she says. No woman had ever reached such dizzy heights in the arch-conservative world of West German finance at the time, and few would do so later.

For Mrs Dingwort-Nusseck's departure from her post at the end of last month after two six-year terms at "the biggest of the small, and the smallest of the big" German state central banks makes her the first, and, for the time being, the only woman to sit on the Bundesbank's 18-member central council.

It has been a rich period, she reckons. But 12 years is just right — "I think it's an ideal time to give impulses and influence long-run structures." But after that, "there's not much else you can do. Then it's time to go."

Do the 11 regional central bank heads who sit alongside Mr Poehl and his senior Frankfurt-based colleagues really count when it comes to key decision-making? She admits

Julia Dingwort-Nusseck

Financial trail blazer

that few are as well informed about terms for the latest Federal Government bond as Mr Claus Koehler, the Bundesbank's capital markets expert, or as competent to speak on exchange rate matters as Mr Leonhard Gleske, its international specialist.

But when it comes to domestic matters, the "regional princes" play a key role, she thinks. The central bank's policy-forming committee would lose touch with business feeling if it excluded the heads of the state central banks.

"It's not just talks with the top 10 companies that matter," she says. Regional central banks also have a wealth of contacts with the Mittelstand, the medium and smaller-sized groups which are seen as Germany's economic backbone.

Thus, she sits alongside regional business leaders on a large number of consultative committees. And since Hanover's industrial fair is the most important forum of its kind in the world, she can also report to the Bundesbank in Frankfurt on business confidence in general.

But she admits that the regional structure of Germany's central bank complicates decision-making — "regional differences in Germany are stronger than in France or the UK," she says. Thus it is not always easy to reach decisions, especially on such key domestic issues as interest rate policy or money supply growth. "The length of our meetings proves it."

Mrs Dingwort-Nusseck's successor in Hannover, Mr Helmut Hesse, has three immediate advantages over her. He is a distinguished economist; he teaches at the University of Göttingen in Lower Saxony itself — and he is a man.

But Mrs Dingwort-Nusseck does not intend to let her sex get in the way of her plans — even now. A wealth of supervisory board appointments are probably at her fingertips, although she is keeping mum about her precise plans for the future.

An unwritten Bundesbank rule forbids state central bank heads from joining the supervisory boards of commercial banks within two years of stepping down. But Mrs Dingwort-Nusseck says she has no wish to go into finance. With a clutch of honorary posts on a variety of foundations already under her belt, she is not likely to be inactive. And she already sits on the supervisory board of Norddeutsche Rundfunk, the leading state broadcaster in north Germany.

Some observers think further career developments will come in that direction, too.

Haig Simonian

BUNDESBANK

French link 'threat to independence'

AMONG CENTRAL bankers, West Germany's Bundesbank is almost a byword for independence and the quiet exercise of power. Its strict separation from the central government and constitutional role in protecting the value of the Deutschemark have made it the envy of many foreign counterparts who see themselves as under the thumb of their Finance Ministries.

But while the Bundesbank and its role are well-enough understood, few non-Germans know much about its structure, especially when it comes to its links with its constituent central banks in Germany's 11 Laender (states).

For German central banking entails much more than just the Bundesbank's stark 14-storey headquarters outside Frankfurt's city centre. Rather, it involves a more decentralised system of power and decision making than many realise, in which the state central banks play an often underestimated role.

A better picture of central banking in Germany shows through in the name of the Bundesbank's predecessor, the Bank Deutscher Laender (Bank of German States), set up in 1948 to co-ordinate the activities of the 11 state banks and dissolved in 1958 to make way for the Bundesbank.

The present title is less of a tongue-twister, but it does less justice to how the Bundesbank operates.

For contrary to the headlines, German monetary, interest and exchange rate policy is not just set by Mr Karl Otto Poehl, the Bundesbank president, or even by him and his six senior colleagues. Rather, it involves the 18-member Zentralbankrat (Central Bank Council), which comprises the seven senior figures from Frankfurt along with the heads of all 11 regional central banks.

Each of Germany's 11 states has a state central bank. But while each has a vote on the Central Bank Council, they differ substantially in both size and political complexion.

Take size first: Bremen is the smallest, with just two branches, against the state central bank in North Rhine Westphalia — Germany's most populous state — with 50. But even that state takes second place to Hesse, which includes Frankfurt's banking metropolis, when it comes to business volume.

The state central banks can also be distinguished by their political complexion. For choosing the president of a state central bank is the prerogative of the Prime Minister of the state concerned.

Appointments are often made on political grounds, and it would be unlikely for the president of a state central bank to be a member of a political party other than the one currently in office.

Only five of the state central bank presidents are seen as non-political appointments — Mr Dieter Hiss of Berlin, Mr Norbert Kloten from Baden-Wuerttemberg, Mr Johann Schoellhorn from Schleswig-Holstein, Mr Hans Gliem, president of the state central bank in the Saarland and Mr Helmut Hesse, who has taken over from Mrs Julia Dingwort-Nusseck in Lower Saxony.

Many of the presidents of the other banks were members of the state government before moving over, possibly working as Finance or Economics Minister or as senior civil servants.

However, the role of politics should not be exaggerated. For the Central Bank Council has tried hard to prevent party politics from intruding on its meetings. "One of our principles is that it should not be possible to tell from a delegate's comments which political party he or she supports," says a veteran delegate.

That principle is supported by the practice of not revealing individual voting patterns, nor of even disclosing whether a delegate was in the majority or minority on a given issue.

Central banking is more decentralised than many realise

Though there are few known examples of the system of collective responsibility collapsing, that has not prevented the Central Bank Council from being faced with some very tough decisions in the past.

Accepting Chancellor Helmut Schmidt's plans for a European Monetary System in the late 1970s was one of the most difficult, recalls a participant — "many of us feared dangers which, fortunately, didn't come about."

But while the EMS may not have involved too deep a regional split, the decision to defend the D-Mark when it was under pressure in 1980-81 was much more controversial.

Protecting the value of the currency involved a 7.5 per cent peak discount rate and a 9.5 per cent Lombard emergency funding rate — hard to swallow for many Council members from industrial regions where local companies were likely to be hit. More recently, the overshoot of money supply targets in 1987, and possibly this year, too, has caused some strain.

But the issue which is most concerning members of the Central Bank Council at present is the Franco-German Finance Council. Many fear the readiness of the Bonn and Paris governments to co-ordinate monetary policy has jeopardised the Bundesbank's much-vaunted independence.

They argue that Mr Poehl could find himself in an impossible situation. For the Bundesbank's system of collective decision-making means he cannot agree to any new measures that may be approved in the bilateral grouping without first getting approval from the Central Bank Council itself.

Even Mr Poehl's attendance at the Franco-German meetings should not be seen as a foregone conclusion, it is argued. After all, the Bundesbank president is under no obligation to be at a certain place at a certain time — "invitations from the federal government are invitations and not orders," notes one of those closely involved.

How severely has the federal structure of the German central bank complicated decision making? Complicated perhaps, says Mrs Dingwort-Nusseck, but it has also contributed greatly to political safeguards.

Federalism has prevented the Central Bank Council from become too politically biased or permanently identified with any one party, argue many regional bank chiefs.

"We think this structure has proved itself in the past three decades by guaranteeing political pluralism," says Mrs Dingwort-Nusseck. "There has never been a politically one-sided central bank management in Germany."

Whether the present structure of a federal central bank, which is then reflected 11 times over at state level, is the most rational or cost-effective way of running the business is another matter. It is significant that other regionally-structured financial institutions like the Landesbanken (state banks) and co-operative banks are looking very carefully at the possibility of rationalisation at the moment.

But with regional interests cutting deep — and political prestige also at stake — reducing the number of state central banks is probably impossible. Although having 11 state central banks, which each have their own boards, structures, and even printing units, makes little sense, a change is virtually out of the question, says one banker close to Mr Poehl.

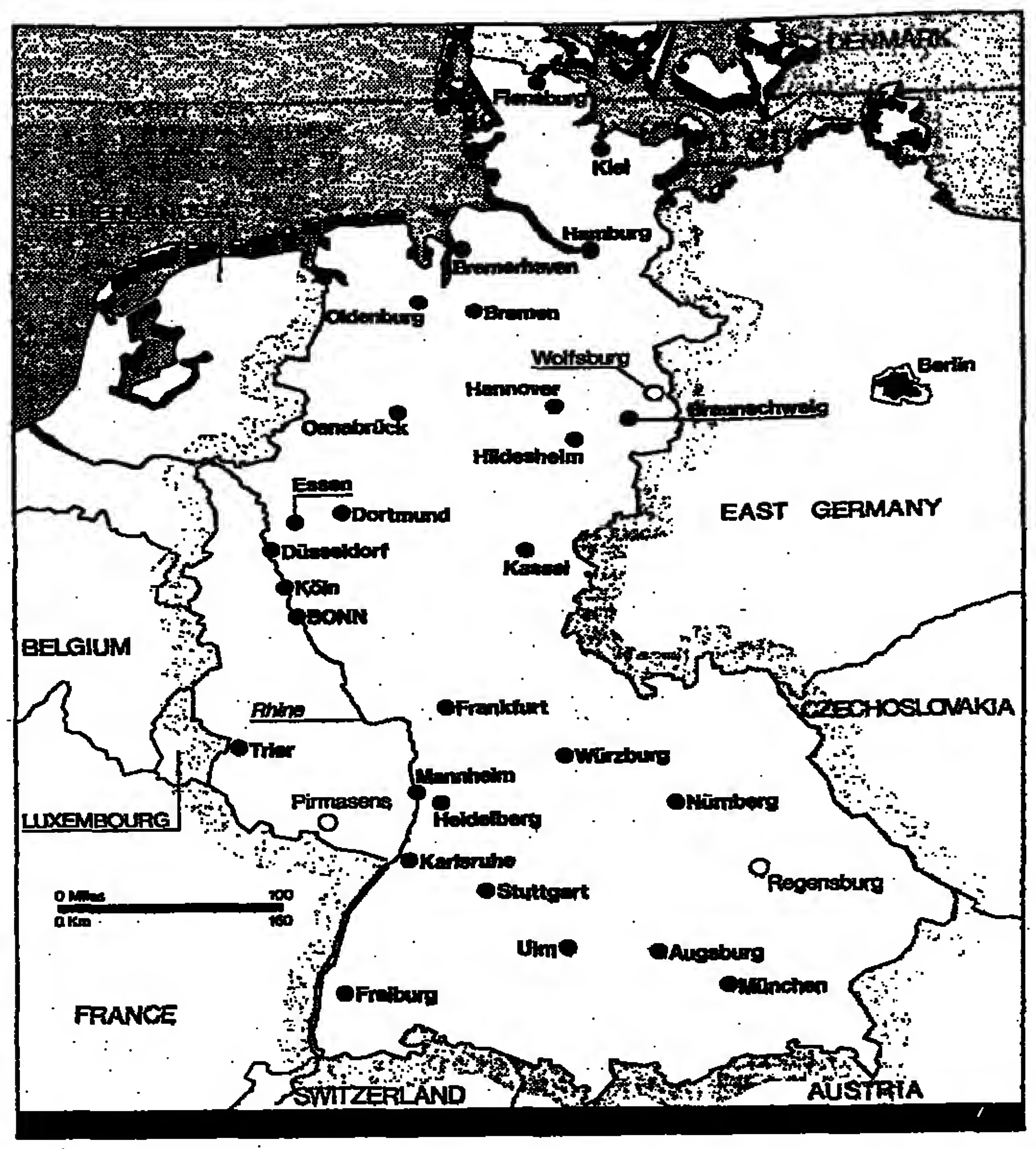
Part of the structure is a relic of the Reichsbank, Germany's pre-war central bank, which used to discount commercial bills as well as conduct normal central banking business.

That dictated a thick branch network which has still not been pruned entirely. Many also see the Bundesbank's workforce of over 15,500 employees as excessive.

But shutting branches or cutting staff would ruffle too many political feathers for most state central banks to consider. One central bank president recalls the unpopularity caused by closing just two branches — less than 10 per cent of the state's total.

And, the damage to political independance apart, many regional bank chiefs doubt that a shift to a unified central bank in Frankfurt would make much difference in terms of costs. "I suppose it would save our travelling expenses to Frankfurt," quips one.

Haig Simonian



Regional focus: Wolfsburg, a hard-working town dominated by Volkswagen

Achievements through team spirit

WHEN WERNER SCHLIMME, the Mayor of Wolfsburg, arrived in the north-east German town in the late 1950s, he did not think he would stay for very long.

But Mr Schlimme, who had spent four years as a Russian prisoner of war, decided eventually that he liked the place. So did his wife – "we felt good here," he says. Not only did they like the energy of the town, dominated by the huge Volkswagen car plant, but they appreciated the outgoing spirit of the people, most of whom had also come from other parts of Germany and abroad.

"It's like a melting pot here," adds the retired education official. "The mixture of people from all over Germany made the town a very open place."

Mr Schlimme himself came from Hanover, the nearest big city. He admits, though, that south Germans, used to a sunnier climate and jollier way of life might find the north German mentality a bit hard to take.

Also from the north, Thomas Scharnhorst, a computer expert with VW, is another who has learnt to like Wolfsburg.

"You can feel at home here," he says, noting that it is only one hour to Hanover, half an hour to the attractive town of Braunschweig, and two-and-a-half hours to Berlin across the border. "Wolfsburg is not an international city like Munich, Frankfurt, or Berlin. And the weather could be better. But the surroundings are nice and I can afford to live here in a house with lots of space for the children."

To non-inhabitants, Wolfsburg does not, at first sight, seem a particularly interesting place to live. Its architecture is mostly utilitarian, its centre unimpressive, and its character very much that of a company town. But the achievements of both the town and its large corporate inhabitant in the post-war years are immense. And it is that which communicates itself most readily to the visitor, who is likely to be awed by the sheer scale of the VW plant, the largest under one roof in the world.

'Wolfsburg today is like a melting pot with a mixture of people from all parts of Germany

This year, both the company and the town are 50 years old. It is an uncomfortable anniversary, since VW and Wolfsburg were founded in the Hitler years and memories of Nazi behaviour before and during World War Two are being painfully re-awakened. VW has commissioned a team of historians to probe the events of those unhappy years. They are trying to establish how the different categories of imported prisoners and forced labourers were treated.

Undoubtedly, some received vicious and fatal treatment, especially in the disciplinary camps run by the SS. Those from the East were also severely under-nourished and many Polish and Russian babies died of infection. But there were examples of kindness by German workers, some of who tried to ease the burden and help with extra food.

The historians are also attempting to assess how Ferdinand Porsche, designer of the original Beetle, came to terms with the Nazi administration in his desire to see his project realised as part of Hitler's industrial ambitions.

He did not oppose forced labour, but he may have tried to improve conditions. The system resulted in considerable hardship, especially for Russians, Poles and others from the East, whom the Nazis regarded as racially inferior. At the end of the war, several hundred Hungarian Jewesses came to the plant from Auschwitz. While their conditions were harsh and they lived in a bunker, they at least survived.

"We're not making a secret of those early years," stresses Mr Schlimme. But like fellow town officials, he was annoyed by some German television coverage, which concentrated mainly on the bad years and tended to neglect the tremendous growth of VW and thus of Wolfsburg after the war.

Today, the company employs 64,000 people in the town, which has 130,000 inhabitants.

After the runaway success of the post-war Beetle, output of which reached 1m in 1955, VW has found a new winner with the Golf, now in its second generation.

Because of the huge strides made by VW since the war, Wolfsburg has not always found it easy to keep pace. It has had to provide new accommodation, schools and other facilities, as well as try and develop a character which goes beyond the purely workaday. Its success has been mixed. While it has a striking theatre and a concert hall, both built by renowned architects, it also contains some ugly apartment buildings, one group of which unfortunately marks the first sight of the town seen from the *autobahn*.

The town, first called the Stadt des KdF-Wagens (Town of the Strength through Joy Car), developed in several areas rather than as a single unit, thus leaving it without a proper centre.

Some of the original 1930s houses are still among the most attractive in Wolfsburg, which took its present name from a striking local Renaissance castle. Originally, the Nazis intended the town to have an Acropolis-like building on a hill as an eye-focussing feature. After the war, VW and Wolfsburg became a destination for refugees from the East.

Until 1948, when Heinz Nordhoff took over as general manager, the survival of the VW plant had been in doubt. It was actually down for dismantling, but the British organised a revival of civilian car production – the factory had made military parts during the war – mainly to meet desperate transport needs in the chaotic period after the war's end. Thus the plant, which had been heavily bombed, remained.

In the past 40 years, VW has been an important component of West Germany's economic miracle. Though Mr Nordhoff, like others, was not wholly convinced of the Beetle's qualities, he pushed ahead with production.

In the early years, when the plant was being rebuilt and expanded, conditions were tough. In the paintshop, for example, car bodies were dipped in a cleaning bath and then ground smooth by hand before being painted – "people stood in their boots in water," says Mr Hans Ziegler, who joined the VW paint section in 1950.

For those who have experienced the rise of VW, Wolfsburg with its relatively cheap accommodation, its extensive areas of green, and its wide range of sports facilities is a pleasant place to live. An art gallery is being added to its cultural facilities and attempts are being made to give the somewhat arid centre rather more of a 'big town' atmosphere.

"We don't want to be a total automobile town even though we produce cars," says Mr Peter Lamberg, chief executive of Wolfsburg, to where he came five years ago from the Ruhr. "But we don't want to falsify the town's appearance with phony half-timbered buildings. We want chic, modern architecture from the present."

While Wolfsburg will never be really *chic* and will probably always be tied to VW's fortunes, it can claim to be a thriving example of what hard work and team spirit can achieve. Elegance and high-living it can leave to others.

Andrew Fisher

■ Volkswagen and Wolfsburg were both founded 50 years ago *during the Hitler years.* VW has commissioned a team of historians to probe the events of that unhappy period. Today, VW employs 64,000 people in the town which has 130,000 inhabitants.

A robot places a spare tyre into a Golf car being manufactured at the Volkswagen plant in Wolfsburg

هكذا من الأصل

Problems in Pirmasens

A centre for the shoe industry

An operative makes quality-checks at a Pirmasens shoe factory. A slight rise in orders has boosted local hopes.

PIRMASENS, like Rome, is built on seven hills. There the comparison ends. Situated in an extreme western corner of Germany, and embedded in a landscape of rolling hills, deep gorges, and dense forests, this town of 52,000 inhabitants is having a struggle to rise above its image of a backwater.

In geographical terms this might seem surprising: a 150 km radius embraces the vineyards of the Alsace, the industrial centres of the Saar, and the airport at Frankfurt. But with inadequate road links, a moribund railway line and virtually no cultural attractions to write home about, the town remains provincial in a pejorative sense of the word and not even particularly attractive to tourists.

Unless, that is, they warm to the by-now nostalgic qualities of German post war architecture, which survives almost unaltered in many blocks of flats, department stores and offices. Or perhaps they prefer the monumental fountain-cum-stairway, a cross between the Trevi Fountain and the Spanish Steps, and recently erected as a feature of the new pedestrian precinct.

Hemmed in by natural features on all sides, the town's very proximity to France, the arch enemy, deprived it for centuries of a hinterland.

By a quirk of fate, Pirmasens, despite this unpromising situation, became the hub of the German shoe industry, which is now feeling the pinch of international competition.

The Hessian count Ludwig IX had turned the town into a military post in 1741, and taken up residence in 1757. There was a daily drill on the huge *Exerzierplatz*, still visibly the focal point of the town, and the count is reputed to have composed about 20,000 marching tunes.

But after his death the garrison was disbanded, and the soldiers, who had built their homes in Pirmasens, were left to fend for themselves. That was when they turned to making shoes, re-using the cloth of their uniforms and oddments of leather.

About 50 shoemakers existed by 1800. The oldest still existing shoe factory, Peter Kaiser, was founded in 1838. Pirmasens girls walked as far as Switzerland to sell shoes on market fairs. The Pirmasens shoe trade peaked in the mid-1960s when in the town and surrounding districts 27,000 workers in 290 factories produced over 50m pairs of shoes, one third of total West German demand.

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"And we in tend to stick to our 6000 pairs a day," says Mr Zillox, "expansion is not for us, the market is too tight." It is indeed a reason why the Peter Kaiser strategy is no blueprint for other companies. Though some do succeed to open up new markets, like Linn Shoes, a newcomer specialising in footwear produced with ecologically sound methods, for 'green' people. But the shoe business is hampered by inherent complexities, from the purchase of raw materials as far away as India, to the vagaries of fashion, which hinder all forward planning.

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Gunter Kowa

Developments in the industrial town of Regensburg

A big leap forward

WITH ITS numerous medieval buildings (including a splendid Gothic cathedral), its few Roman remains, and its narrow winding alleys, Regensburg, straddling the Danube in eastern Bavaria, hardly seems the model of a modern industrial town.

Since the economic advances of the 19th century largely passed it by, its beauty remained intact and Allied bombs left it alone. Of all big German towns dating back to the Middle Ages, it is the best preserved.

But its attractions did not include widespread prosperity – "Regensburg didn't share in the post-war economic growth of other areas," says Mr Hans Schaidinger, head of the town's development office. "The infrastructure was not there."

A few years ago, it was still very provincial, not even linked by motorway to the Bavarian capital city of Munich. Its university was only founded in the 1960s. While the wealthy Thurn and Taxis family, now headed by Prince Johannes and the colourful Princess Gloria, familiar to gossip column readers, has long put its imprint on the town, modern employers were slow to come.

Yet in the 1980s, Regensburg, with 130,000 inhabitants, has taken a big leap forward. Two of the world's most modern industrial plants have recently been built there. BMW is producing 260 cars a day on a site where Stone Age villagers lived nearly 7,000 years ago; and Siemens manufactures complex memory chips on a former Messerschmitt airfield. Among longer established post-war companies is Krones, the world's leading maker of bottle-labelling equipment. AEG also has an electrical components plant in the town.

Now that Regensburg can be reached from Munich in less than an hour, officials are looking forward eagerly to the time, in 1992, when the new Munich airport should open up more opportunities. For it will be built in the north-east of the city, more easily accessible from Regensburg.

Apart from the prospect of freer European trade after 1992 through the unified market, that year also has another significance for Regensburg. The Rhine-Main-Donau Canal is due to be completed then, giving water-borne transport a clear route between the Black Sea and the North Sea.

The town already has Bavaria's largest inland port and is keen to benefit from the new canal by modernising its cargo-handling facilities. It was, however, disappointed when the state of Bavaria decided for political reasons that Deggendorf, further to the east, should be the site of a new freeport.

"We have got to be aggressive in our marketing," asserts Mr Schaidinger. "No town can just wait around and see what comes along."

He was talking about the new canal and the possibility of modernising the port. But Regensburg has also shown its new thrust in other ways. For example, when BMW started pondering locations for its new plant and approached the Bavarian Government, Regensburg was not even in the running.

On learning about its plans, town officials went to BMW's management and presented Regensburg as a suitable site – "we can provide good land cheaper than in the Munich area," comments Mr Schaidinger. It has also set aside suitable land to attract other companies, looking not only within Germany but also to the Far East and the US.

Because it remains a structurally weak area – unemployment exceeds 10 per cent, well above the national average – Regensburg can offer subsidies for new investments. BMW, which invested DM1bn in its facility and is now spending another DM500m, mostly for a new body plant, received some DM90m of financial incentives. It would have had even more if it had gone nearer the Czech border.

But the car group wanted easy communication with its other plants. It now employs more than 3,000 people in Regensburg, some 800 taken on earlier this year when BMW broke new ground with a four-day week and Saturday-working to ensure more intensive use of its costly equipment. At the highly automated and flexible plant, BMW makes the more expensive of its best selling 3-series models, the smallest in its range.

As well as the geographical advantages and the importance of favourable communications, BMW was also swayed in its choice of Regensburg by the availability of suitable labour. It was able to draw on a large supply of skilled people, even though most had never worked in a car plant. BMW devoted a good deal of money to training.

Although the eventual capacity at Regensburg is put at some 500 cars a day in two shifts in the early 1990s, Mr Bernd Kaltheneger, the manager of the plant, aims to keep output at present levels for the time being – "we have built up the workforce so fast that we now have to consolidate."

On some days during the build-up to the present employment level, as many as 250 new workers came through the gates.

The economic benefits to the area, however, go beyond the plant itself. Altogether, says Mr Kaltheneger, a further 3,300 jobs and some DM650m of investment have stemmed from the desire of parts suppliers to be near Regensburg, as well as BMW's other southern plants and that of Audi in Ingolstadt. However, says Mr Schaidinger, most of those extra jobs are not actually in Regensburg, though their existence enhances the industrial attractions of the overall East Bavarian region.

A link between BMW and Siemens, which employs some 7,000 people in the town, is provided by the latter's plant for automobile electronics. Siemens' recent cooperation deal with Bendix of the US should give a new impetus to its efforts in the fast-growing sector, to which the German company is a relatively new entrant. But in terms of industrial boldness and risk, it is the 1-megabit memory chip venture – 4-megabit chips are also being developed by the group – which has excited the most interest.

Siemens' output of these chips now exceeds 1m a month and it is aiming for 1.5m next year. The company invested DM500m in its gleaming new air-conditioned plant, where it employs around 1,900 people. About half of these are also on special working arrangements designed to keep the plant running seven days a week. They do six days on and four days off, a further example of the flexibility of the local workforce in a town with few industrial traditions.

The flexibility *extends* to the attitudes of the town administration, which tries to take key decisions as quickly and helpfully as possible.

Because of its historical and cultural attractions, big companies such as Siemens and BMW have had no trouble persuading managers to move to Regensburg. Outside Germany, admits Mr Schaidinger, a lot of people have not heard of the town, even though it has become a must for foreign tourists with the time and energy to travel beyond Munich or Nuremberg.

"Regensburg is not a faceless town and that is definitely an advantage," he says.

Andrew Fisher

The environmental protection business

Highly competitive sector

THE ENVIRONMENTAL protection business in West Germany has been oversold. For several years the chief executives of most large industrial group have been boasting about their small environmental technology divisions, like the obligatory joint-venture in China, on the assumption that everybody agrees this is a profitable venture of the future.

Industry of the future it may be, but it is by no means certain that it will be particularly profitable. Part of the problem is that it is already highly competitive because so many big companies have seen it as a natural extension of their existing businesses, and margins are therefore paper thin.

Plant construction firms like KWU, Uhde and Lurgi have made a dash for air pollution control as their traditional markets have withered. And Process engineers such as Mannesmann, Thyssen and Hoesch, have followed their noses into emission control and water and waste treatment.

Because of the speed of technological change it can also be a highly risky field, for example Degussa's commanding position in supplying catalysts to reduce vehicle exhaust emission, will disappear in the next few years when cleaner engines make them redundant.

Other markets such as desulphurisation equipment for power stations are already largely saturated, at least in West Germany, which is one reason why Deutsche Babcock has just forecast lower than expected profits in its environmental business this year.

And, finally, much of the growth in the future is likely to come from waste disposal, water treatment and soil reclamation much of which tends to be low-technology and low-margin and dominated by small local firms.

Nevertheless, while environmental protection may not be the wonder-business of the future West Germany already spends more than 1.5 per cent of GNP on environmental protection and the industry employs roughly 450,000 people.

And although air pollution control may be passed its peak, the Confederation of German Industry estimates that industry will have to spend an extra DM50bn in the coming years as a result of general environmental legislation passed by the present coalition government.

So despite its recent setback, a giant of the industry like Deutsche Babcock is likely to continue describing itself as the "environmental equity."

Nearly 25 per cent of sales now come from environmental protection, with an aim of 50 per cent, and it boasts some impressive market share figures: 30-35 per cent in emission control for power stations, which accounts for about two-thirds of its environmental business; and around 50 per cent for both municipal incinerator plants and water treatment plants.

In all three cases Babcock's market share is the largest in Europe, according to Warburg Securities.

Shifting away from the relatively mature emission control sector – in which Japanese technology still dominates – will be a tricky business for Babcock but its strong presence in the two other environmental markets should help. It is also eyeing the potential DM20bn market in soil reclamation.

According to Mr Albrecht Crux, of the Roland Berger consultancy in Munich, the trend in waste disposal is for the large utilities to start buying up the medium-sized companies because the latter cannot afford to build the huge incinerators that the Government is trying to promote in preference to holes in the ground. Babcock may well have to follow suit.

But for Mr Helmut Wiehn, chairman of Deutsche Babcock, and for most other leaders of the West German industry, the important question is when will the rest of Europe catch up with the Federal Republic's strict environmental control laws. Germany already has a leading position in the export *of environmental goods, but in absolute terms it is still a relatively* under-developed export sector.

The Greening of Mrs Thatcher may be good news for Babcock shareholders. However, the environmental business is likely to remain bad news for unemployed Germans.

Although environmental goods represent one quarter of Babcock's turnover, it employs only 1,100 people in this sector out of a total workforce of 22,000.

David Goodhart

BMW turnover may exceed $11bn this year

Car group's solid success

EBERHARD VON KUENHEIM is not the sort of man to get carried away. The coolly urbane, soft-spoken chairman of BMW, the Munich-based car company with the distinctive round emblem in Bavaria's colours of white and blue, takes a sober view of the runaway success of the latest models at the top of its range.

With rival Daimler-Benz struggling hard to bring out competitive models as soon as it can, however, Mr von Kuenheim cannot quite disguise his pleasure at the way in which BMW has been making the running in luxury cars.

"Daimler-Benz is such an excellent company and we have such respect for its achievements that we see it as an honour when we are compared with Daimler and not with anyone else."

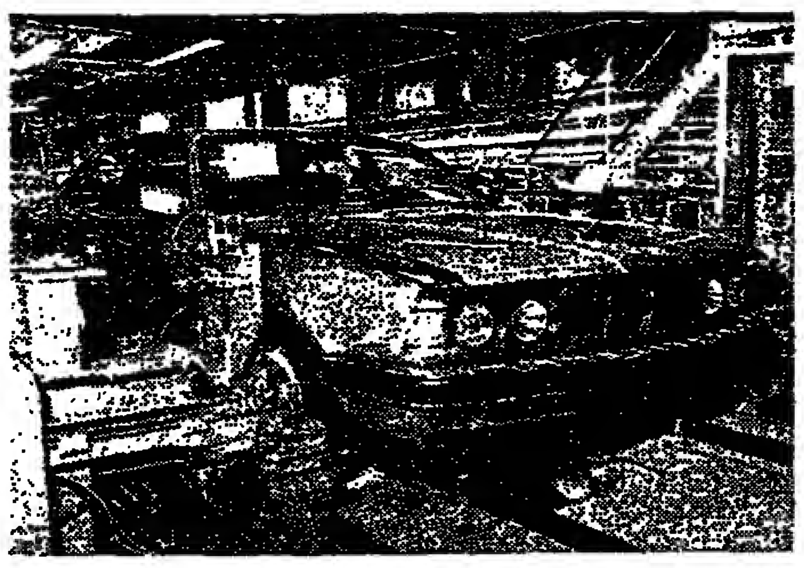
Decades ago, notes Prussian-born Mr von Kuenheim, who has just turned 60, Daimler became one of the world's top car-makers – "now we are ranked equal. In some areas, we are ahead of them at the moment." He was referring to the impressive sales of the 7-series, the elegant car at the top of BMW's range which has set new standards of performance and comfort for expensive cars.

The newer 5-series, slightly smaller, has also been well received in the market.

Daimler's S-class, which has been overtaken in customer popularity by the 7-series, is now ageing. But the Stuttgart company has made no secret of the fact that it intends to roar back with a vengeance.

"It is quite clear that Daimler will try to get back to the top position from which it was surprised to be displaced," says the BMW head. "In our competitive free market system, everyone is always trying to outdo everyone else – and the customer always gets something better."

After 18 years at the top of BMW, Mr von Kuenheim is not about to be overwhelmed by his company's solid advance which will push group turnover well past the DM 20bn (nearly $11bn) mark this year after DM 19.5bn in 1987, with production approaching 500,000 vehicles – "success can always be dangerous if it leads to hubris or self-satisfaction," he says.



Electronic wheel track checks being made at BMW's car plant

Although BMW has not made a loss for 25 years, it has had its share of difficult times. It was founded in World War One to make aircraft engines; its distinctive badge represents a whirling propeller. After World War Two, during which its Munich plant was bombed flat, it sought to recover by making both expensive cars and inelegant little 'bubble cars,' once described as resembling washing machines on wheels.

In the late 1950s, however, it was losing money and frustrated banks were ready to sell it to Daimler-Benz. It was then that the wealthy Quandt family came on the scene, buying a large minority stake in the company which it now controls. The late Mr Herbert Quandt chose Mr von Kuenheim, a former machine tool company executive in Hanover, to move to BMW in 1969.

With the Quandt funds and commitment, BMW was able to survive and press on with new model development. Its new middle-range model, the BMW 1500, appeared in 1961 and two years later, the company paid its first dividend for 20 years. The bumpy ride was not over, however. In the early 1970s, a time of soaring oil prices and motor industry recession, BMW went through a hard time, as did its competitors.

Today, BMW is a large industrial concern with a turnover 10 times as large as in in 1970. Stories of takeover offers still surface, the rumoured predators being drawn from the US, Western Europe and Japan. But the Quandts have made clear they do not want to sell – and Mr von Kuenheim is happy to keep things that way. He has often said that the family would be hard put to it to find an equally good investment.

From the perspective of nearly 20 years at the top of BMW, the chairman can look back on BMW's colourful past with calm consideration. The Quandts, he says, have given the company "a certain consistency."

This is important to Mr von Kuenheim who stresses that success is the result of steady, patient efforts by managers and employees.

Rather than image, therefore, he prefers to talk of reputation – "ours has been built up over years. It has not happened overnight."

He also admits that BMW's present success has been easier to achieve in a favourable economic climate. In 1987, parent company profits – under EC rules, it will soon have to report group results – rose by 11 per cent in 1987 to DM 375m and analysts forecast a further advance this year.

After the new 7 and 5-series cars, BMW will continue its assault on the market with a new 3-series generation at the lower end of its range in 1990. These smaller cars have already benefitted from the success of the larger BMW models, competing strongly with Daimler's compact 190 which has just been revamped.

The more expensive of the 3-series cars are manufactured at a new DM 1bn plant in Regensburg in Bavaria, where BMW is investing a further DM500m, mostly on a body plant.

As well as the high degree of automation, with cars swung through 90 degree arcs so that they can be easily worked on, the plant is also interesting because of the unusual working week. This puts employees on four nine-hour days and enables Saturdays to be worked.

Thus, the plant can be run more intensively and costs kept down.

"I assume we will do this in our other plants one day," says Mr von Kuenheim of the four-day week and Saturday work. "Germany is one of the most expensive industrial countries in the world. We have the highest wages, the longest holidays, the shortest working times, and the highest corporate taxes. Taken together, it is a bit much."

Still, he stresses Germany's infrastructural and productivity advantages. But he notes that the right-centre Government of Chancellor Kohl has been less energetic than Mrs Thatcher's in Britain in making the economy more competitive and less bureaucratic. He remains hopeful, however – "the change in direction has been promised, so we must assume it will come."

For BMW, the 1990s promise to be exciting, with more new models due, Daimler preparing to hit back, and European markets set to be opened up. BMW-watchers also wonder how far the group will stray from cars.

Cautiously, it has invested in small high-technology companies. But having signalled its intention to diversify more, though not into unfamiliar areas, Mr von Kuenheim gives little away – "we don't want to buy rubbish," he says.

When Daimler moved heavily into other industries a few years ago, BMW was criticised for not doing the same, he recalls. Now, Daimler is coming under sharper scrutiny – "what's right for one company," he insists, "can be wrong for another."

Andrew Fisher

Major car plants are already highly automated. Above: the Bremen plant of Daimler-Benz.

Factory automation spreads to smaller companies

Campaign to boost robot usage

START WITH benefits, such as six weeks annual holiday, and then persuade trade unions to push for a 35-hour-week. No wonder West Germany sounds like an industrial robot salesman's idea of heaven.

This is also the same country where the population has been decreasing for more than a decade, and a third of everything made in Germany is exported. However, a shrinking workforce making high-priced, high-quality products, competing at the top end of the market, definitely needs high tech help.

But the estimated 16,500 robots now installed in West Germany reflect a sharp 25 per cent drop in sales since the 1986 peak. The major multinational car and chemical companies are well-equipped. But the small to medium-sized companies making just about every other successful German export are moving very cautiously into the age of factory automation.

"Business this year will not be less than it was in 1987, and it could increase. We're hoping actually for good growth," says Bernd Knoerr, deputy director of Germany's industrial robot trade group. Even so, last year sales plunged 25 per cent (2,680 robots), valued at DM595m.

Exports accounted for 45 per cent of 1987's sales, but the strong mark-weak dollar situation has reduced them to about 40 per cent this year. And the expansion of Japanese car companies' production in the United States is only expected to aid the competition in East Asia.

"The new hope for factory automation in Germany is now focused on the machine tool industry. These are usually smaller, very export-intensive companies, and very flexible," says an optimistic-sounding Knoerr. But they do not have the financial muscle enjoyed by Japan's machine tool firms, which are usually part of a large multinational, he adds.

It is estimated that 16,500 robots are already used in West Germany. The machine tool sector is a big potential user.

The West German government is aware of the problem, and the Ministry of Research and Technology has a five-year, DM502m plan to boost factory automation. It includes setting up 16 technology transfer centres throughout Germany.

The idea is to let smaller companies see for themselves on what advantages computer integrated manufacturing (CIM) offers and how they can best design their next generation of equipment to operate in a CIM environment, says Helmut Bertuleid, chief of the Research Ministry's manufacturing technologies section.

The programme has set aside DM300m specifically for machine-tool companies, subsidising new software to help a company fit its products into a CIM factory. The funding is limited to 40 per cent of a project's cost, with a maximum cost of DM800,000 per company. The funds can also be used to retrain employees to work in the new network, says the programme director, Ingward Bey.

He is based at the government-run Karlsruhe Atomic Research Centre. Naturally, the Government is determined to win back some of the billions of D-marks it put into facilities designed to plumb the secrets of atomic power. But Karlsruhe also served as the site of a previous government-sponsored CAD/CAM laboratory which functioned as an information and technology transfer point.

Factory automation and how smaller companies can best adapt to it is the issue now.

"The first thing is to do an exact analysis of a company, and then determine how CIM can be a strategic component," says Bey. "You then need to set priorities, so your personnel and machinery can be used to get the maximal benefit for the next five to 10 years."

The Research Ministry already has 1,500 applicants from companies wanting to take part in the five-year programme, which officially started on July 1. More than two-fifths of the machine tool companies applying have less than 50 employees, adds Bey.

West Germany's small companies are evidently interested in computer-supported technology. The trend to shorter product cycles and customised products requires more flexibility and higher quality. Industrial robot salesmen can take heart.

Dr Heinz Riesenhuber, Minister for Research and Technology, has set up a five-year plan to encourage further factory automation.

Problems in Pirmasens

A centre for the shoe industry

PIRMASENS, like Rome, is built on seven hills. There the comparison ends. Situated in an extreme western corner of Germany, and embedded in a landscape of rolling hills, deep gorges, and dense forests, this town of 52,000 inhabitants is having a struggle to rise above its image of a backwater.

In geographical terms this might seem surprising: a 150 km radius embraces the vineyards of the Alsace, the industrial centres of the Saar, and the airport at Frankfurt. But with inadequate road links, a moribund railway line and virtually no cultural attractions to write home about, the town remains provincial in a pejorative sense of the word and not even particularly attractive to tourists.

Unless, that is, they warm to the by-now nostalgic qualities of German post war architecture, which survives almost unaltered in many blocks of flats, department stores and offices. Or perhaps they prefer the monumental fountain-cum-stairway, a cross between the Trevi Fountain and the Spanish Steps, and recently erected as a feature of the new pedestrian precinct.

Hemmed in by natural features on all sides, the town's very proximity to France, the arch enemy, deprived it for centuries of a hinterland.

By a quirk of fate, Pirmasens, despite this unpromising situation, became the hub of the German shoe industry, which is now feeling the pinch of international competition. The Hessian count Ludwig IX had turned the town into a military post in 1741, and taken up residence in 1757. There was a daily drill on the huge *Exerzierplatz*, still visibly the focal point of the town, and the count is reputed to have composed about 20,000 marching tunes.

But after his death the garrison was disbanded, and the soldiers, who had built their homes in Pirmasens, were left to fend for themselves. That was when they turned to making shoes, re-using the cloth of their uniforms and oddments of leather.

About 50 shoemakers existed by 1800. The oldest still existing shoe factory, Peter Kaiser, was founded in 1838. Pirmasens girls walked as far as Switzerland to sell shoes on market fairs. The Pirmasens shoe trade peaked in the mid-1960s when in the town and surrounding districts 27,000 workers in 290 factories produced over 50m pairs of shoes, one third of total West German demand.

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Gunter Kowa

An operative makes quality-checks at a Pirmasens shoe factory. A slight rise in orders has boosted local hopes.

Developments in the industrial town of Regensburg

A big leap forward

WITH ITS numerous medieval buildings (including a splendid Gothic cathedral), its few Roman remains, and its narrow winding alleys, Regensburg, straddling the Danube in eastern Bavaria, hardly seems the model of a modern industrial town.

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But its attractions did not include widespread prosperity – "Regensburg didn't share in the post-war economic growth of other areas," says Mr Hans Schaidinger, head of the town's development office. "The infrastructure was not there."

A few years ago, it was still very provincial, not even linked by motorway to the Bavarian capital city of Munich. Its university was only founded in the 1960s. While the wealthy Thurn und Taxis family, now headed by Prince Johannes and the colourful Princess Gloria, familiar to gossip column readers, has long put its imprint on the town, modern employers were slow to come.

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He was talking about the new canal and the possibility of modernising the port. But Regensburg has also shown its new thrust in other ways. For example, when BMW started pondering locations for its new plant and approached the Bavarian Government, Regensburg was not even in the running.

On learning about its plans, town officials went to BMW's management and presented Regensburg as a suitable site – "we can provide good land cheaper than in the Munich area," comments Mr Schaidinger. It has also set aside suitable land to attract other companies, looking not only within Germany but also to the Far East and the US.

Because it remains a structurally weak area – unemployment exceeds 10 per cent, well above the national average – Regensburg can offer subsidies for new investments. BMW, which invested DM1bn in its facility and is now spending another DM500m, mostly for a new body plant, received some DM90m of financial incentives. It would have had even more if it had gone nearer the Czech border.

But the car group wanted easy communication with its other plants. It now employs more than 3,000 people in Regensburg, some 800 taken on earlier this year when BMW broke new ground with a four-day week and Saturday-working to ensure more intensive use of its costly equipment. At the highly automated and flexible plant, BMW makes the more expensive of its best selling 3-series models, the smallest in its range.

As well as the geographical advantages and the importance of favourable communications, BMW was also swayed in its choice of Regensburg by the availability of suitable labour. It was able to draw on a large supply of skilled people, even though most had never worked in a car plant. BMW devoted a good deal of money to training.

Although the eventual capacity at Regensburg is put at some 500 cars a day in two shifts in the early 1990s, Mr Bernd Kaltheneger, the manager of the plant, aims to keep output at present levels for the time being – "we have built up the workforce so fast that we now have to consolidate."

On some days during the build-up to the present employment level, as many as 250 new workers came through the gates.

The economic benefits to the area, however, go beyond the plant itself. Altogether, says Mr Kaltheneger, a further 3,300 jobs and some DM650m of investment have stemmed from the desire of parts suppliers to be near Regensburg, as well as BMW's other southern plants and that of Audi in Ingolstadt. However, says Mr Schaidinger, most of those extra jobs are not actually in Regensburg, though their existence enhances the industrial attractions of the overall East Bavarian region.

A link between BMW and Siemens, which employs some 7,000 people in the town, is provided by the latter's plant for automobile electronics. Siemens' recent cooperation deal with Bendix of the US should give a new impetus to its efforts in the fast-growing sector, to which the German company is a relatively new entrant. But in terms of industrial boldness and risk, it is the 1-megabit memory chip venture – 4-megabit chips are also being developed by the group – which has excited the most interest.

Siemens' output of these chips now exceeds 1m a month and it is aiming for 1.5m next year. The company invested DM500m in its gleaming new air-conditioned plant, where it employs around 1,000 people. About half of these are also on special working arrangements designed to keep the plant running seven days a week. They do six days on and four days off, a further example of the flexibility of the local workforce in a town with few industrial traditions.

The flexibility extends to the attitudes of the town administration, which tries to take key decisions as quickly and helpfully as possible.

Because of its historical and cultural attractions, big companies such as Siemens and BMW have had no trouble persuading managers to move to Regensburg. Outside Germany, admits Mr Schaidinger, a lot of people have not heard of the town, even though it has become a must for foreign tourists with the time and energy to travel beyond Munich or Nuremberg.

"Regensburg is not a faceless town and that is definitely an advantage," he says.

Andrew Fisher

The environmental protection business

Highly competitive sector

THE ENVIRONMENTAL protection business in West Germany has been oversold. For several years the chief executives of most large industrial group have been boasting about their small environmental technology divisions, like the obligatory joint-venture in China, on the assumption that everybody agrees this is a profitable venture of the future.

Industry of the future it may be, but it is by no means certain that it will be particularly profitable. Part of the problem is that it is already highly competitive because so many big companies have seen it as a natural extension of their existing businesses, and margins are therefore paper thin.

Plant construction firms like KWU, Uhde and Lurgi have made a dash for air pollution control as their traditional markets have withered. And Process engineers such as Mannesmann, Thyssen and Hoesch, have followed their noses into emission control and water and waste treatment.

Because of the speed of technological change it can also be a highly risky field, for example Degussa's commanding position in supplying catalysts to reduce vehicle exhaust emission, will disappear in the next few years when cleaner engines make them redundant.

Other markets such as desulphurisation equipment for power stations are already largely saturated, at least in West Germany, which is one reason why Deutsche Babcock has just forecast lower than expected profits in its environmental business this year.

And, finally, much of the growth in the future is likely to come from waste disposal, water treatment and soil reclamation much of which tends to be low-technology and low-margin and dominated by small local firms.

Nevertheless, while environmental protection may not be the wonder-business of the future West Germany already spends more than 1.5 per cent of GNP on environmental protection and the industry employs roughly 450,000 people.

And although air pollution control may be passed its peak, the Confederation of German Industry estimates that industry will have to spend an extra DM50bn in the coming years as a result of general environmental legislation passed by the present coalition government.

So despite its recent setback, a giant of the industry like Deutsche Babcock is likely to continue describing itself as the "environmental equity."

Nearly 25 per cent of sales now come from environmental protection, with an aim of 50 per cent, and it boasts some impressive market share figures: 30-35 per cent in emission control for power stations, which accounts for about two-thirds of its environmental business; and around 50 per cent for both municipal incinerator plants and water treatment plants.

In all three cases Babcock's market share is the largest in Europe, according to Warburg Securities.

Shifting away from the relatively mature emission control sector – in which Japanese technology still dominates – will be a tricky business for Babcock but its strong presence in the two other environmental markets should help. It is also eyeing the potential DM20bn market in soil reclamation.

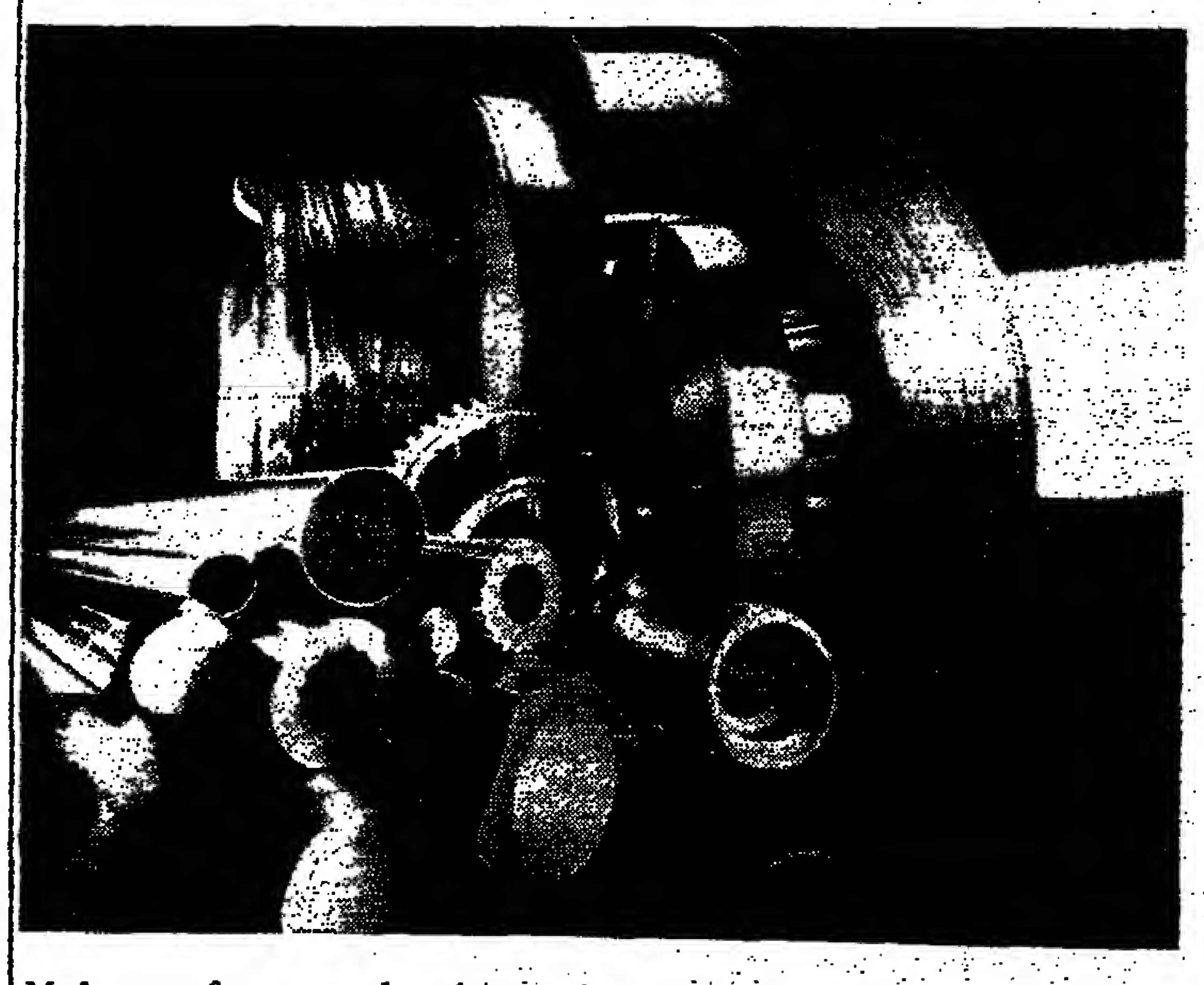
According to Mr Albrecht Crux, of the Roland Berger consultancy in Munich, the trend in waste disposal is for the large utilities to start buying up the medium-sized companies because the latter cannot afford to build the huge incinerators that the Government is trying to promote in preference to holes in the ground. Babcock may well have to follow suit.

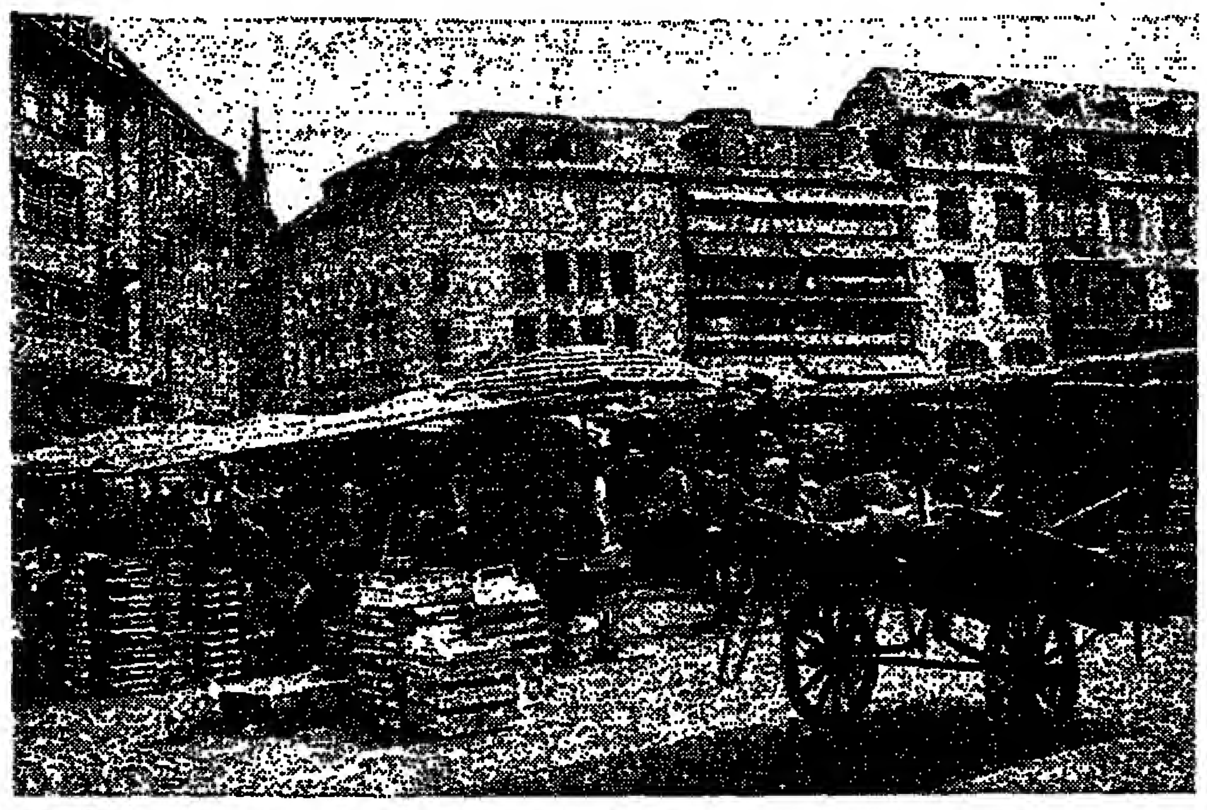
But for Mr Helmut Wiehn, chairman of Deutsche Babcock, and for most other leaders of the West German industry, the important question is when will the rest of Europe catch up with the Federal Republic's strict environmental control laws. Germany already has a leading position in the export of environmental goods, but in absolute terms it is still a relatively under-developed export sector.

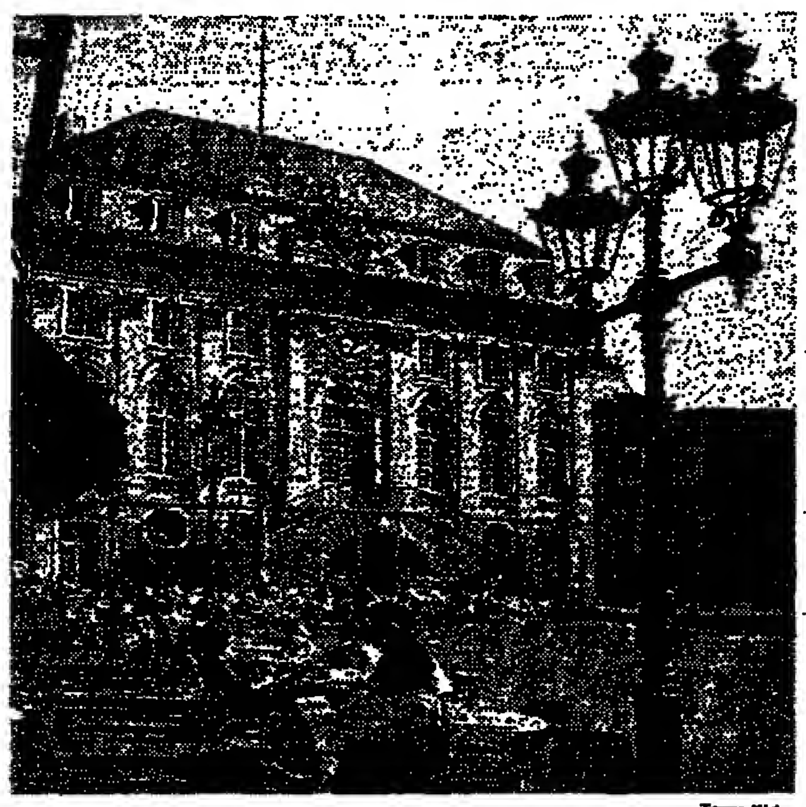
The Greening of Mrs Thatcher may be good news for Babcock shareholders. However, the environmental business is likely to remain bad news for unemployed Germans.

Although environmental goods represent one quarter of Babcock's turnover, it employs only 1,100 people in this sector out of a total workforce of 22,000.

David Goodhart







Central Bonn, showing, left, stalls in the market place. Big building projects are now under way in the capital. *Terry Kirk*

Bonn prepares to celebrate its 2,000th anniversary

Life in the 'federal village'

WHILE BONN makes plans to celebrate its 2,000th birthday, it is not, however, the most popular city among some expatriates living in West Germany. In a light-hearted way, Michel Faure, a Parisian, and the Bonn correspondent of the French newspaper, Liberation, gives his personal impressions of life in the capital city.

* * *

IT IS Saturday afternoon and the centre of Bonn seems as deserted as the Sahara, although a lot more humid. The shops are closed, as they must be according to the law, the streets are empty, but the *kneipen*, the local pubs, are doing a brisk trade.

On Friesdorfer Strasse, near the Haribo factory where the famous jelly-bear candies are manufactured, a green and white police car is patrolling, as if burglars or terrorists now and then had a craving for sweets.

On Koblenzer Strasse, the main street of Bad Godesberg, a group of diplomats and their families from some Gulf emirate is heading towards the McDonalds restaurant, forming a single line like a caravan in this urban desert. They are the only human beings in sight.

I am not sure that this place really deserves to exist – but it is a purely theoretical question, since Bonn has already existed for some 2,000 years. The Mayor, Hans Daniels, even proclaims that these two milleniums are a 'minimum estimate.' A few historians beg to differ and think that, when Bonn celebrates its 2,000-year anniversary next year, it will be too early by some 80 years.

To celebrate the occasion, anyway, the city has DM14.5m to spend. As part of the commemorative events this spring, many people were invited to sniff four different perfumes to choose one which will have the honour of being called *Eau de Bonn*.

I hope they have chosen a seductive odour, for – to tell the truth – there is very little that is really exciting in this city. Except, perhaps, the official logo – the word 'Bonn' with an O-shaped lipstick imprint of a lady's kiss.

Granted, Bonn has a few charms, such as a pleasant cathedral and a modest castle. Some folk may also watch the barge traffic on the Rhine for, say, 10 or 15 minutes without being too bored. There are some surprises, too, such as a few streets in the Suedstadt area with its Jugendstil houses, painted in pastel colours. But all this does not exactly add up to exhilarating city life.

A lot of people tell me, frankly, that they do not like the place. Some will remind you that its most famous inhabitant, Ludwig van Beethoven, left at the age of 22 and never came back. So, to gain some cocktail party conversation pieces, when I arrived here around 18 months ago, I did *try* to give Bonn a chance.

I wandered around the city, along mostly unadventurous trails until, finally, I thought it would be wise to return to more familiar venues which I did not exactly dislike. One of them is the Koenig Museum, where visitors can view stuffed giraffes in large rooms - or maybe, on a wet day in Bonn, dream of Africa.

When it is not raining, I like going for a glass of wine on a terrace along the Rhine, near Mehlem, and then cross on the ferry to Koenigswinter, where loud German tourists dance, drink and sing on summer weekends. This is after the compulsory visit to the romantic ruins of the Drachenfels, on the top of the hill, where Siegfried, says the legend, killed a dragon.

On the same right bank of the river, in Rhoendorf, one can visit the charming house where Konrad Adenauer lived and died. Today, the house is a museum, patronised by schoolchildren and out-of-town civil servants.

I must confess that I love this house – but maybe I should not be so attached to it: after all, Adenauer, 40 years ago, thought it would be very convenient to work close to home. And today, my unfortunate colleagues and I live in this "federal village" of Bonn because the great man wanted to tend his roses and his country, all in the same day.

Michel Faure

The Mayor of Bonn reflects on the city's future

'A capital without triumphal arches'

MR HANS DANIELS, the small, earnest-looking Mayor of Bonn, will next year be much in evidence at a series of festivities marking two birthday commemorations. As the city celebrates its 2,000th anniversary, the Federal Republic is marking its 40th – two occasions which Mr Daniels will use to ram home the point that Bonn, by now, really is the capital of the Federal Republic.

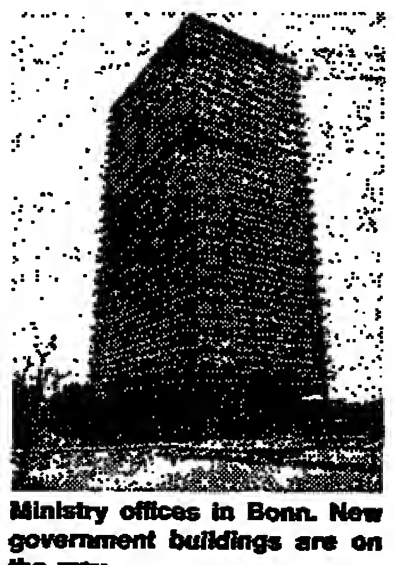
Mr Daniels, 53, is a notary who has been Mayor of Bonn – a post his father also held – for 13 years. He admits that the post-war division of Germany, and the lack of any capital city tradition (apart from the short-lived Reich era, between 1871 and 1945) has led to ambivalence about Bonn's role.

"The question of Bonn as capital is an annex to the German question. Bonn is capital of the Federal Republic, but not of the whole of Germany. There is a lack of symbolic identification when the concepts of state and nation do not overlap," he says.

As hopes of speedy reunification were finally buried during the 1970s, Bonn has now however officially given up its "provisional" character – and is "much more recognised as the capital," adds Mr Daniels.

Provisionality is being swept away by thousands of tons of concrete as part of a massive building programme to erect a new parliament building, re-site ministries and construct hotels, conference centres and museums during the next five years. The overall programme, costing around DM3bn, is being financed largely by the Federal Government and the state of North Rhine Westphalia.

The building plans have turned many parts of Bonn and the low-key 'government district' on the road to Bad Godesberg into construction sites. But the projects, many of which have been scaled down from over-ambitious designs put forward during the last decade, are aimed more at turning the capital into a representative seat of government rather than changing its essential character.



Ministry offices in Bonn. New government buildings are on the way.

"The people of Bonn are aware of the advantages (of being the capital). But they are very sensitive about keeping the human dimension," says Mr Daniels. "This is a capital without triumphal arches."

Even without post-war reticence about grandiose architecture, with only 300,000 inhabitants, too many triumphal arches in Bonn would be clearly out of place. Indeed, its small-town charm, the city's cultural activities – many of them financed largely by the Government – and the closeness of the countryside are among its main attractions, the mayor says.

Mr Daniels, who has just survived what he calls a "failed palace revolution" to unseat him among rivals within the Christian Democratic Union, has held a seat in the Bundestag since 1983, but will relinquish his parliamentary mandate at the next general elections in 1990.

"The double burden was too much, and by then I will have cleared up some of the outstanding questions concerning Bonn's relationship with the federation," he says.

Mr Daniels makes clear that next year's dual anniversaries, together with the additional facilities stemming from the building programme, should be money-spinners.

Bonn's drawing power for ordinary Germans is currently so small that bus trips for pensioners laid on by the Bundestag and the federal press office make up one of the principal sources of tourism.

David Marsh

Personality profile: Ute Lemper

Rapid rise to stardom

ON STAGE, she is a vibrant musical presence, her strong voice carrying across the theatre and her long legs strolling, striding and high-kicking their way through numbers from sources as diverse as Kurt Weill, Duke Ellington and Whitney Houston.

Still only 25, Ute Lemper has risen rapidly to stardom in West Germany, which has produced few big names in the quicksilver world of entertainment. By mixing song and dance styles in an adventurous way, she has conjured up a breadth of appeal which has captivated German audiences.

Internationally, though, she has some way to go. While she has had rave notices for stage performances in Paris, Vienna, and New York, she is still relatively unknown in the US. Yet there have been plenty of comparisons with Marlene Dietrich, Lotte Lenya, or Liza Minnelli.

She finds this embarrassing – "I'm not that well-known around the world." But after her January concerts in Germany, she was filmed by US television. "Then I went to Los Angeles to record and was spoken to on the street several times by Americans who said 'Oh, you're that German girl who was on the news.' I couldn't believe that I, a little German girl, was recognised on the west coast of America."

At 5ft 8in, she is hardly little. But she is more modest and unaffectedly friendly than her immaculate, fast-moving shows might suggest. Her initial performances in Hamburg, Duesseldorf, and Frankfurt last winter were sell-outs. The full German tour a few months later was much more ambitious, including auditoriums holding 7,000 people.

"These huge halls, it's madness!" she exclaimed with a screech of laughter.

It was certainly bigger than anything she had done before. Born in the north German university town of Münster, the banker's daughter has had successes in Vienna in the musical *Cats*, in Paris playing Sally Bowles in *Cabaret*, in Berlin as Peter Pan, and in New York with Kurt Weill songs. A show of Weill material is also planned for New York's Carnegie Hall next January.

Inevitably, any German female star who breaks out beyond the country's fairly provincial and uninspiring entertainment world raises comparisons with Dietrich. Not surprisingly, she recoils from being mentioned in the same breath – "the comparison is pretentious, I wouldn't want to be compared with her. I am in a totally different period and my songs and my temperament are very different from hers. She has been a big star and made films in Hollywood. I've done nothing like that."

Lemper hopes to make films soon, one possible project casting her as an adventurous young woman in darkest nineteenth century Africa. She is also aware that for the US music scene, she must have her own songs; her new pop album, being recorded in Los Angeles, will have numbers specially written by Michel Legrand and other top musicians.

"I've got to find my own musical style. But I must keep my European flavour and not just adapt to the American market, because there are lots of highly talented people there," she says. Among those she admires are Barbra Streisand, Liza Minnelli, Bette Midler, and jazz paragons Sarah Vaughan and Ella Fitzgerald.

"Americans don't want to hear me singing *'I got it bad and that ain't good'* (a Duke Ellington song in her concerts). They want to hear that from their own people. I think they'd rather hear things from me like Weill, Hollaender (a pre-war German songwriter), or maybe a few dance numbers. They'd rather have jazz ballads sung by their own people."

Still, there is a link. Some Weill tunes are jazz and popular standards. By harking back to the sinuous melodies and evocative texts of his pre-war songs, written at a time of febrile excitement and gathering violence, she is avoiding the apeing of American culture and adding an individual element to the entertainment scene.

For a woman born in the 1960s, exposure to the earlier era can be heady. She found her performances as Sally Bowles exhausting for reasons beyond the physical. Dealing with the Nazi years, the musical contained an element of shock. It was strange enough for a German to play an English girl on a Paris stage. And since Sally Bowles is hardly a critical role – "I had to bring a certain amount of naivete."

Lemper finds the period fascinating. But there was revulsion, too – "there were huge Nazi flags on the stage. Some people protested or ran out. Older people burst into tears. I found it very moving and when I saw those Nazi flags, I had to swallow hard, because it was so genuine and so overwhelming that I was gripped and full of fear."

She expresses shame at Germany's past – "I feel with the French, the English, and Americans – especially as many Jews emigrated to America – that, as a German, one is identified with the crimes of that time.

"And I am ashamed, because people are still offended or hurt; I can sense the pain of those who experienced these things, their hate and rage.

"I come from a generation that had nothing to do with this, but one is seen in the same light, even now, and the accusations and negative emotions are there. It was strange to play this part from that period, since it is basically an opportunist role of someone singing for the Nazis and not opposing them."

Still, for Lemper it was a triumph. Before, she was in *Cats* in Vienna, where she went to acting school. Though she describes Vienna as an old, stuffy 'Kaiser-Stadt', she was glad to escape from "conventional and catholic, old-fashioned, fuddy-duddy Münster."

After Vienna, she played in Peter Pan in Berlin where she delighted audiences – "Berlin is hard, brutal, aggressive and *kaputt*, but genuine." Frankfurt, where she has been based, apart from trips to the US to record and to Berlin to give a concert of Weill songs, she finds cramped and conventional, "a dead city."

The vivacious Ute Lemper: captivating German audiences.

Having succeeded outside Germany, she is scathing about its popular culture, its often repetitive or slushy pop songs, and its lacklustre and over-earnest TV.

"Unfortunately, Germans often have bad taste. You can see it in their mentality, many simply have no real feeling for life, no feelings of joy, and these stupid things come out in the music."

Why? "I think the German mentality is less musical or physical than in America or England. Things are very ponderous. After the war, people also had to think more of their career or profession and less of enjoying life; and song and dance and shows are full of life."

She found US audiences open and eager – "Germans find it hard to be enthusiastic. They can't let themselves be really moved by anything from the heart. They have to analyse things in their heads, or just allow themselves to rock along with the crowd."

Andrew Fisher

Portrait of a quality news group's chief executive

Profits take second place to accuracy


Hans-Wolfgang Pfeifer of the Frankfurter Allgemeine Zeitung

HESSISCHE RUNDFUNK (the regional state broadcaster) once ran a news bulletin in which the announcer said there was no news that day – and just read the weather, instead.

"I find that terribly sympathetic," says Mr Hans-Wolfgang Pfeifer, chief executive of the Frankfurter Allgemeine Zeitung (FAZ), one of West Germany's leading quality publishing groups.

Strange words from a newspaper executive perhaps, but then the German media is unlike that in many other European countries – and the FAZ is a particularly special case.

Founded in 1949, the FAZ is now required reading for the German establishment, whether in ministries in Bonn or bank skyscrapers in Frankfurt. It trails the Munich-based Sueddeutsche Zeitung for the top slot in terms of national sales, with daily circulation of 360,000 against 372,000, but Mr Pfeifer notes that about 80 per cent of the Sueddeutsche's sales derive from its native Bavaria, while the FAZ sells nationwide - albeit with a particularly strong following in Frankfurt.

But the FAZ group has become more than a newspaper under Mr Pfeifer, a talkative 57-year-old lawyer. Apart from a number of well-established publishing houses, it has recently launched a specialist information service and well as having a longer established "New Media" section dealing with TV and radio.

"We were a pioneer" in private television, he recalls. Under Germany's present broadcasting system, those not linked to the growing cable network will have trouble seeing its output, which is mainly news and current affairs programmes for RTL Plus, one of the leading cable broadcasters, and a short daily financial bulletin after the bourse closes.

Yet despite its other ventures, the newspaper remains the group's bread and butter, accounting for some 80 per cent of its DM520m annual turnover. Circulation has been rising by about 3-5 per cent a year for some time but "we are not circulation fetishists," says Mr Pfeifer.

The comment is telling. For despite being a commercial operation, profit is not the FAZ group's first priority. Under a highly complicated group structure, both the FAZ itself and the Frankfurter Societaets Druckerei, the printing company with which it is closely associated and whose premises it partly shares (and where the FT is printed in West Germany), are controlled by two separate foundations.

There is a permanent contract between the publishing and printing sides of the business, making them virtually one entity to the uninitiated. However, recent attempts to merge the two foundations – while keeping printing and publishing separate – have focused attention on their arcane legal structure.

Matters have been complicated by the fact that the printing business owns a majority stake in the Frankfurter Neue Presse, a local newspaper group, leading to an inquiry on monopoly grounds.

Mr Pfeifer freely admits that the FAZ's ownership structure has relieved it from many of the daily pressures of fighting for revenue or circulation. While the company would certainly not wish to propound the view that money plays no role in its affairs, "the feeling that you don't need to make money is easier to come by in such a construction," he admits.

Thus, many of the group's book publishing activities are "intellectually right at the top, but right down at the bottom in terms of profitability," he jokes.

Likewise its reluctance to launch into freesheets – free papers delivered to local homes and financed by advertising – which have mushroomed in Germany – "for a long time it was felt they weren't proper", says Mr Pfeifer, implying that was never his own view.

Freesheets, which probably have a higher total circulation in Germany now than paid newspapers, "play quite a powerful role," he adds. However, it is too late for the FAZ to move in, as the market is saturated, he believes.

The group's structure may also help to explain the very correct, but sometimes rather stodgy, image of the FAZ itself to non-Germans in particular. The paper's aim is "not so much to make money, but to be of ever-better quality," notes Mr Pfeifer. Accuracy is valued over speed, even if that means competitors carry the news first. And reading can sometimes be more of a duty than a pleasure.

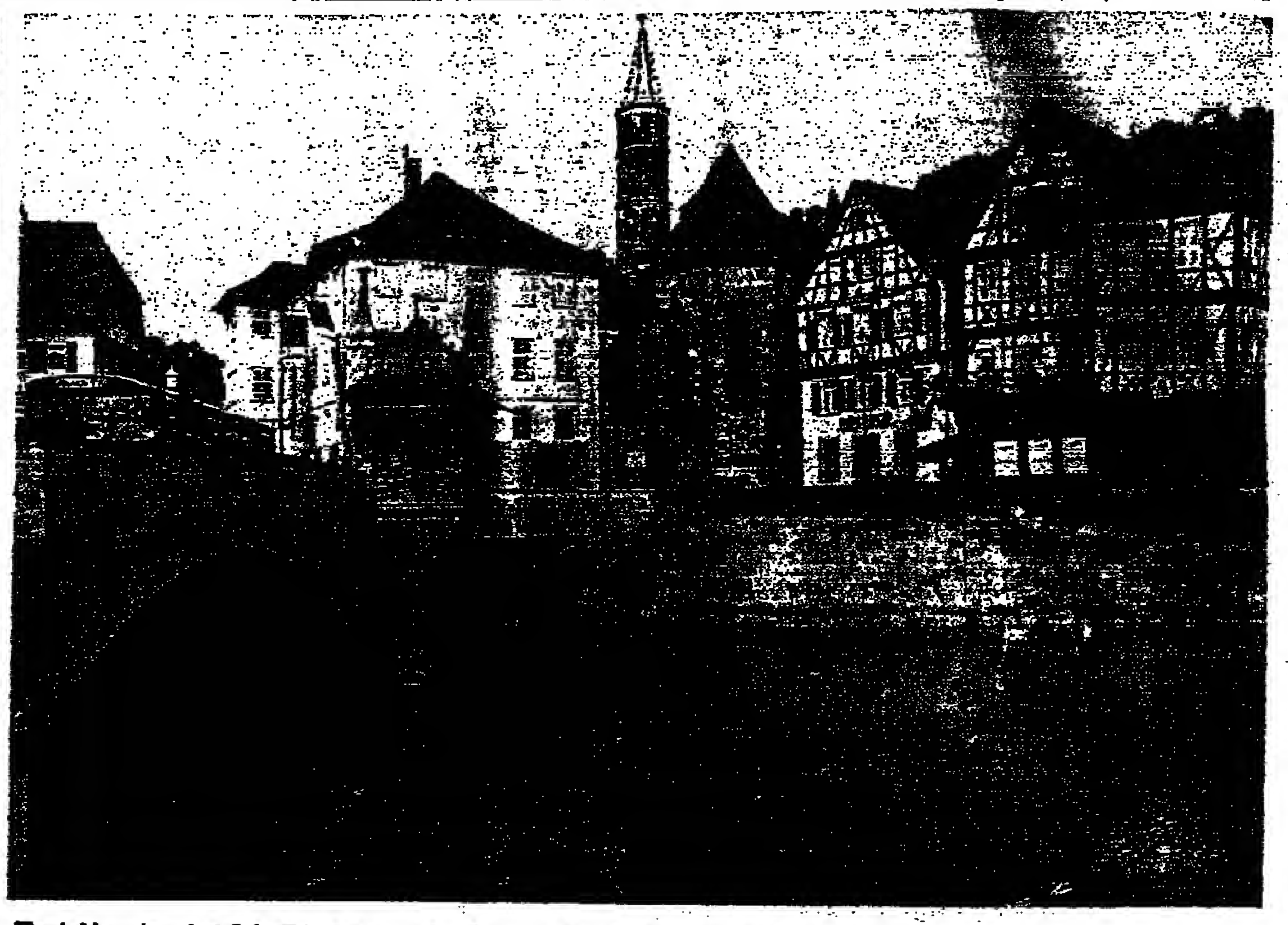
But "better good than hasty" is probably a motto for the German quality press in general. It certainly explains the rather gentlemanly competition that exists between quality papers.

Mr Pfeifer denies there is a lack of competitiveness, but he admits that matters are never taken to extremes, with one paper trying to oust or embarrass another, as is the case in some other countries.

Does that offer fertile ground for any of the foreign press groups which are believed to be eyeing the German market at present? The UK's Mr Robert Maxwell is thought to be particularly interested in German expansion, and may well have been talking to the Frankfurter Neue Presse himself.

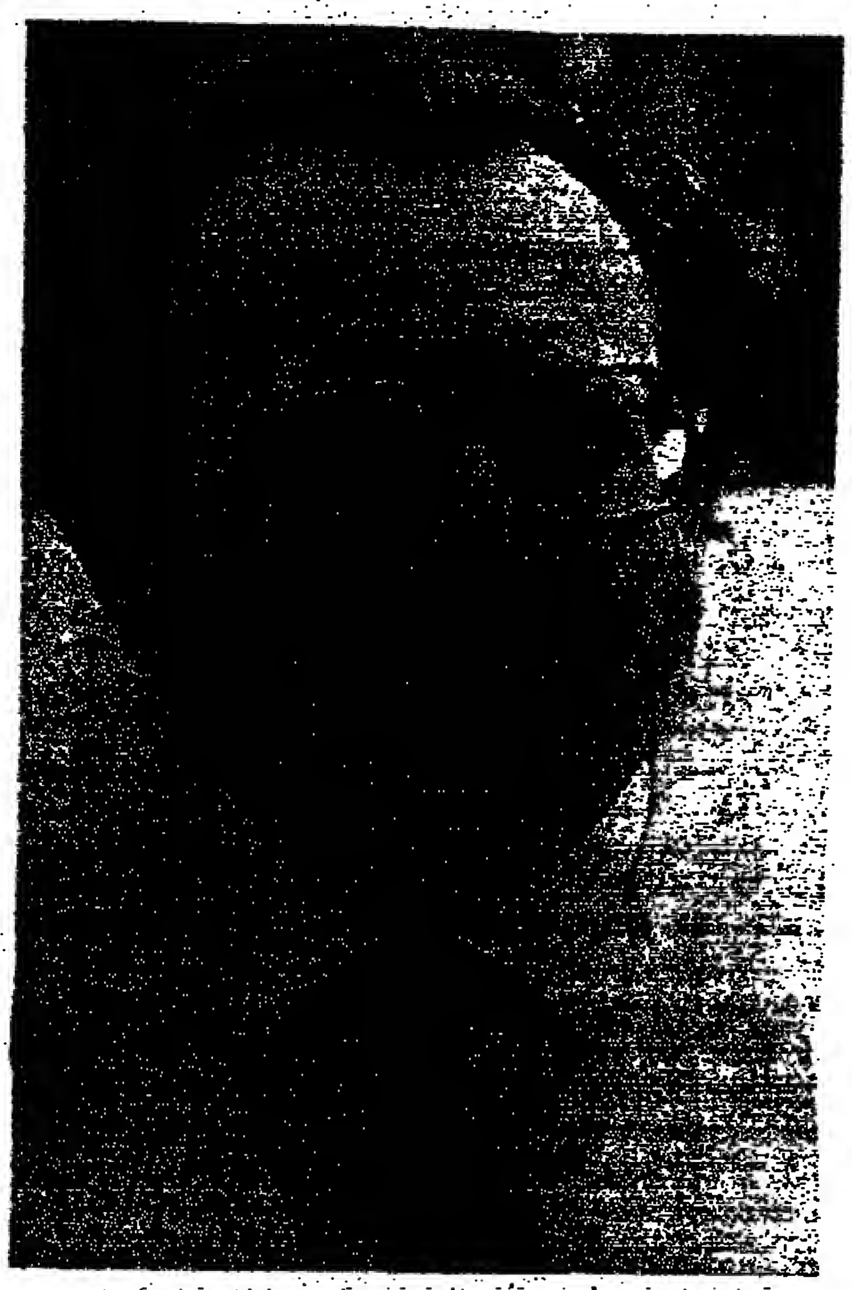
Mr Pfeifer does not rule out the possibility of a foreign press magnate establishing a German bridgehead one day. Nor does he deny that such a group might succeed if it invests sufficiently – "that doesn't bother me", he says. "What's more important is that they should be sensible - I don't care what nationality they are."

Haig Simonian


The bridge chapel at Schwäbisch-Hall on the River Kocher, north-east of Stuttgart

Politics and the arts

Culture hits Stuttgart


Lothar Späth: holding forth on *Kulturpolitik*

MR LOTHAR SPATH, long-running Premier of the south-western state (land) of Baden-Württemberg, and a tireless promoter of its political and economic well-being, has discovered *Kulturpolitik* in a big way.

In interview upon interview, and full page articles written by himself, he holds forth as if he had just invented it.

"Through politics I aim to create the sort of climate of freedom in which the arts can flourish," he declares magnanimously. Ever the astute pragmatist, he adds, that "of course investment in culture has economic significance; cultural and economic development need to go hand in hand."

Keen on the buzz, the press is standing by to applaud the Premier's every announcement of some dazzling new project. In the capital, Stuttgart, the chief beneficiary, work is in progress on the "culture mile."

With traffic to go underground, a promenade will link the theatre and opera house, the state gallery of modern art (designed by James Stirling), and academies of music, stagecraft and the performing arts, the latter conceived on an unusual interdisciplinary basis.

A new project is the conversion of the "Solitude," an 18th century baroque retreat high up in the woods, into an elite academy of arts. There will be grants for up to 35 hand-picked artists, and the hope that they will produce masterpieces for the world to marvel at. Similar hopes accompany grand plans elsewhere.

Karlsruhe, another former courtly residence, is to build an as yet dimly defined "media centre for the arts," to house studios for electronic music, kinetic and video arts. It's an idea much to the taste of Mr Späth, who believes that high tech culture ought to follow hard on the heels of high tech industry, with which he is performing such economic miracles in his state.

It is only logical that he should propose a degree of artistic involvement in his somewhat glibly named project of "Ulm 2000," a kind of industry-based technological hyper college which is to transform life in the Swabian cathedral city and beyond.

Not content to score publicity hits with the launch of projects whose benefits have yet to materialise, Mr Späth made another characteristically canny move when he appointed Mr Wolfgang Gönnenwein, presently artistic director of Stuttgart, as "state adviser for the arts," with full cabinet status, though unpaid, and without budget or staff.

The novelty is that Mr Gönnenwein is not a politician, but a musician and opera conductor. Mr Späth himself styled him the "artistic conscience at the cabinet table." The role cast for Mr Gönnenwein has consigned Mr Helmut Engler, the incumbent minister for the arts and sciences, to relative obscurity.

While Mr Engler, a cultured, quiet-spoken man, has control of the funds, Mr Gönnenwein, and with him his personal secretary Mr Bettich, a previous close adviser of Mr Späth and a highly inventive mind, has the influence on the premier. Mr Gönnenwein has close contacts to the celebrities of the theatrical world and can hold his own in glamorous society.

As for Mr Späth's conscience, it is not in danger of being unduly upset by the new artist cabinet member who is a long-standing friend and has never been known to contradict Mr Späth on any point, cultural or otherwise. He has for example spoken out in favour of business sponsorship of the arts, a concept dear to the Premier.

Leaving aside the rhetoric, Mr Späth's *Kulturpolitik* differs little from that of other politicians in that it tries to get by on the cheap. Funds for the arts, though increased this year by 9 per cent to DM476m, amount to less than 1 per cent of the total state budget.

"There will be very much more in future," says Mr Engler a little wishfully, well aware that for 1990 the increase is set at only 1.5 per cent.

The five state-run picture galleries have seen their purchase grant frozen at around DM21m since 1981 and it is set to go down rather than up.

Some gallery directors fear that the Premier's ambitious projects are pushed through at their expense. Savings on staff contrast with 600 new posts granted to the state police force.

Mr Späth is on collision course with the two south western public service broadcasting stations, whose forward planning has been thrown into disarray by his stalling tactics over an increase in the licence fee.

Cuts have bitten into the cultural output, produced largely by freelance authors. Mr Späth favours the culturally insignificant commercial stations. Some critics also point to the imbalance in the spread of funds between regions and cities, despite Mr Späth's stress on a decentralised approach to cultural politics.

Some small towns have been given musical and literary festivals usually of short duration, Mannheim is to build a major industrial museum, municipal theatres receive a 40 per cent state grant, and there have been plenty of open air folk events.

But many local libraries, admittedly a municipal concern, survive on a shoestring, and even the large state libraries cope with staff shortages. With Stuttgart reaping the lion's share of the funds, one is tempted to look for signals of an imminent rise of the capital to a thriving new cultural metropolis.

Undoubtedly, the lavishly subsidised opera, ballet and theatre have attracted some of the best international talent; and the Staatsgalerie has built up a respectable collection.

But some recent blockbuster exhibitions have had disappointing attendance figures. And while the planned academy may yet pull in artists of acclaim, most have so far preferred to stay in Cologne, or Düsseldorf, or Munich, along with the leading commercial galleries.

Mr Späth, whose previous smooth career in finance and administration suggests that his enthusiasm for the arts may be a development concurrent with his political ambitions, tries to run his *Kulturpolitik* as if it was another high tech industry, designed to enrich his country.

But the creation of a fertile atmosphere, a self-propelling and non-institutional "cultural scene" congenial for artists of any description to thrive in, has so far proved beyond his powers.

Gunter Kowa

Gunter Kowa looks at the role of the student corporations

A key influence in public and business life

THE APPARENTLY solid and, at times, inert character of large sections of the German establishment can be explained at least in part by a peculiarly 'inward-looking' selection process from the universities.

Few foreigners have any notion of the central role played by student corporations. Of these the *Burschenschaften* are the best-known, but they are one group among many. Around the centres of the older German university towns, they can be found behind the imposing facades of grand mansions, with a fanciful flag hanging from a window and some sonorous Latin motto carved into the cornice. They bear the names of German tribes as Tacitus used to know them: *Allemannia*, *Teutonia*, and so on.

Sometimes a small party of young men is seen sallying forth in quaint uniform, with a band slung diagonally across the chest.

Until the World War I, the national elites of Germany (and Austria) sprang almost entirely from the ranks of the student corporations. Having played a significant, even radical role in the progress towards German unification in the early 19th century, they subsequently adapted easily to changes in the political climate by developing a conformist ethos and an elitist creed.

In 1918, in the Indian summer of their power, Heinrich Mann published a sarcastic novel, *Der Untertan* (The Vassal), in which he describes the career of an archetypal opportunist and fanatical nationalist, beginning with his initiation into the beer-rituals of a student corporation: "When to drink or not to drink, when to sit down, stand up, speak out or sing songs . . . was always a matter of command, which diligently to obey meant to be at peace with oneself and the world . . . He would completely blend in with the corporation, which did the thinking and wanting for him. At last, he was a man; he could look at himself with respect and honour, because he was one of them!"

Among the high-minded principles of the corporations perhaps the most significant is the idea of a life-long bond of friendship between members. It did not count for much early in the rise of the Third Reich when Jewish members were pushed or beckoned out of all corporations.

"In no sense was there any spirit of resistance," admits Mr Ernst Wilhelm Wreden in his history of the fraternity of Allemannia Heidelberg, of which he is a life-long member, and one of the few insiders prepared to face up to unpalatable facts. The grip of the corporations on public life may have lessened considerably in contemporary Germany, but it is still quite out of proportion when measured against the total student population.

Linked in 24 umbrella organisations, there are 885 corporations all at local level, numbering around 23,500 full-time student members, the so-called *activitas*. That is barely 2% of all students. But the *activitas* close ranks with over 150,000 so-called "Elder Gentlemen," quite a formidable old boys' network.

Common to all corporations is their men-only exclusiveness, but there are differences between them. Some have religious affiliations, others an emphasis on sports, yet others an aristocratic air.

The *Burschenschaften*, perhaps the most numerous, boast a populist strain, because of their occasional public beer festivals on market squares in small towns. The old boys' networks fork out immense sums for the upkeep of their mansions. New students are attracted by the offer of cheap accommodation, others follow in their fathers' footsteps.

A strong motivation to join is the supportive, albeit fiercely anti-individualistic environment amidst an overcrowded university with its impersonal and loose structure.

In time-honoured fashion the newcomers, known as "foxes," even today rise to full honours, demonstrated by the wearing of full corporate gear, through rituals of initiation, which to outsiders appear both comical and absurdly elaborate. But in many such circles the profoundest mark of distinction is a scar or two across the cheek, the result of an institutionalised sword duel between members of different corporations.

The code of honour proclaims it as a particularly manly virtue standing up to a blow, received in a supposedly chivalrous contest of strength and dexterity. But it is in the notorious sing-song beer drinking sessions that the veil is torn from the corporation ethics to reveal sheer vulgarity. Thus, the corporation shapes its members into an elitist structure, in which a set of shared values can be always relied upon.

This throws some light on the mechanisms of preferment which channels corporation graduates into positions of influence in public and business life.

Certain corporations tend to generate certain elites; the Catholic organisations, for example, are strongly represented in the Christian Democratic parties, the *Burschenschaften* in trade and management, other organisations embrace the technical and diplomatic sectors, others are well represented in sports.

Traditionally, the corporations have strong leanings towards the legal, political, ecclesiastical and medical professions, while they are weaker on the scientific and cultural side.

Their conformist ideology directs them towards the core of the state, not to the periphery. Established firmly on the right of the political spectrum, corporations have sometimes acted as a debating ground for ultra-conservative positions that entered the national stage only later.

Several leading politicians are – or have been – members of corporations, among them the prime ministers of several federal states, namely the late Franz Josef Strauss in Bavaria, Walter Wallmann in Hesse, and Ernst Albrecht in Lower Saxony.

Three Hesse ministers, for education, for finance, and for the interior, as well as the speaker of the parliament, are corporation members.

The corporation spirit extends into the inner circles of Mr Kohl's Government (who is not a member of a corporation), especially through his three top public relation advisers, Eduard Ackermann, Friedhelm Ost (both from the Catholic-orientated *Unitas*) and Wolfgang Bergsdorf.

In Berlin, Mr Eberhard Diepgen, the governing mayor, promoted two of his former colleagues from the Burschenschaft Saravia, Mr Klaus Landowsky, general secretary of the Berlin Christian Democratic party, and Mr Peter Kittelmann, delegate in the Bonn Parliament.

Some years ago, viewers of Berlin television were treated to footage of an old documentary showing the three engaged in the obligatory sword duels. The current debate between the state prosecutor Mr Kurt Rebmann, a lawyer who 'grew up' in the Burschenschaft Normannia Tübingen, and President Richard von Weizsäcker, who has no corporation links, about the merits of a pardon for penitent terrorists, can be seen as a proxy for the conflict of differing sets of values.

The Confederation of German Industry (BDI) counts many corporation gentlemen among its ranks, and there are corporation members in many a boardroom. It will surprise no-one that corporation fellows are particularly strong in the breweries.

It would an exaggeration to say that the establishment represented by the German university corporations amounted to a secret society. They do not even make up an entirely homogeneous class, or an unbroken political front. But their values have lent considerable flavour to the 40-year development of the Federal Republic.

With a new political generation growing up, it is uncertain whether these values will maintain their ascendency.

Cheerful university students in a beer garden: lifelong bonds of friendship are highly valued by the corporations.

Paradoxes abound

Continued from Page 1

at arm's length from modern western technology.

Some US diplomats have been muttering recently that they would welcome some setbacks for glasnost and perestroika if only to dampen the new-found ardour of Mr Kohl's Ostpolitik.

West Germany's role as a transmission corridor between East and West has also been highlighted this year by the streams of German-origin refugees emigrating from the Soviet Union and Eastern Europe.

As many as 200,000 of these people – the highest number since 1950 – are expected this year to enter the Federal Republic, adding to the estimated 100,000 non-German asylum-seekers from primarily eastern Europe and the Middle East.

West Germany, whose population has been declining slowly since 1973 as a result of the low birth rate, has thus become again an immigration country. To critics in the West – the Reagan administration, or the experts at the Organisation of Economic Co-operation and Development – the Federal Republic has become an over-regulated economy, complacent in its inflexibility.

To millions in the East, however, it is a land of opportunity, offering jobs, wealth and self-satisfaction on a scale unthinkable in Communist Europe.

The influx of ethnic German refugees, despite the high initial cost of giving them housing and welfare, is being welcomed by the Kohl Government. This is not only because it offers the Chancellor some potential new recruits to the Christian Democratic Union, and also provides a modest way of lending form and content to a new style of German patriotism.

Additionally, the relatively young, work-hungry and mobile new entrants to the labour market (perhaps 500,000 over the next few years) will, it is hoped, act as a Trojan horse to break down some of the famous rigidities among the workforce and give a shot in the arm to the economy.

Mr Kohl is hoping for similar benefits from the package of reform measures his Government has been laboriously bringing before parliament in the tax, pensions and health care areas.

The coalition, racked by petty internal conflict for most of the period since the 1987 general election, has proven unjustified both the hopes and the fears of 1982 that it would bring about a decisive shift towards free-market policies.

But the attack on the costs of the pensions and health systems at least represents an effort to tackle long-term structural problems posing a threat to overall competitiveness in the 1990s. Industrialists' public display of worry earlier in 1988 about high-cost West Germany's capability to attract investment in coming years, has died down in recent months as the economy has picked up steam.

The likelihood of a further rise in 1988 from last year's record DM117bn foreign trade surplus has helped dampen anxiety about latent competitive shortcomings.

In line with oscillating concerns about its defence vulnerability, the country is bound to go through further bouts of self-examination about whether it will really match up to the requirements of a more integrated Community economy. Foreigners might find this all a little strange. But the agonising forms part of the natural background beat of a country which, for all its post-war success, is still not quite sure of its place in a changing world.

Guide for overseas business visitors

A summary of information for overseas business visitors to West Germany:

Time: GMT+1 (GMT +2 from March to September).

Climate: temperate. Warm summers, fairly cold winters. Warmest month, July; rain throughout the year.

Entry requirements: visa not required for nationals from most European countries and several others, but note that regulations differ slightly for travel to West Berlin. Travel agents or German consulates should be consulted prior to departure.

Air access: regular flights by all major international airlines; national airline, Lufthansa; main international airport: Cologne-Bonn, 28km from Bonn, 18km from Cologne; Berlin-Tegel, 8km from city; Düsseldorf, 13km; Frankfurt, 10km; Hamburg, 11km; Hanover, 11 km city; Munich, 10km; and Stuttgart 14km from the city.

Main ports: Bremen, Bremerhaven, Hamburg, Kiel, and Wilhelmshaven

Hotels: no official rating system; single room with breakfast costs up to DM300, including VAT and 10-15 per cent service charge. It isadvisable to book well in advance, especially when trade fairs are being held. All major credit cards are accepted.

Restaurants: a wide range of types and prices; do not wait to be seated by waiter; sit at empty table and signal to waiter or waitress – French and English spoken widely in restaurants; the bill usually includes a service charge and VAT; extra tip optional.

Currency: Deutsche mark floats against all foreign currencies, but is included in European Monetary System float; no multiple exchange rates in Germany.

Foreign exchange: accounts – no restrictions on deposits of non-residents. Trade policy – few import restrictions; no import duties on goods from EC states; licences only required for military equipment, drugs and agricultural products.

Car hire: widely available; daily rates DM55-155, plus DM.39 to 1.33 per km., depending on the size of vehicle. Weekly rate for a medium-size car, about DM860.

Speed limits: built-up areas, 50kph; normal roads, 100kph; autobahns 'recommended' top speed, 130kph; wearing seat belts is compulsory.

Public holidays: fixed dates, 1 January, 6 January, 1 May, 17 June, 1 November, 25 and 26 December.

Working hours: business – Monday to Friday, usually 0800-1730; government offices, usually 0800-1700.

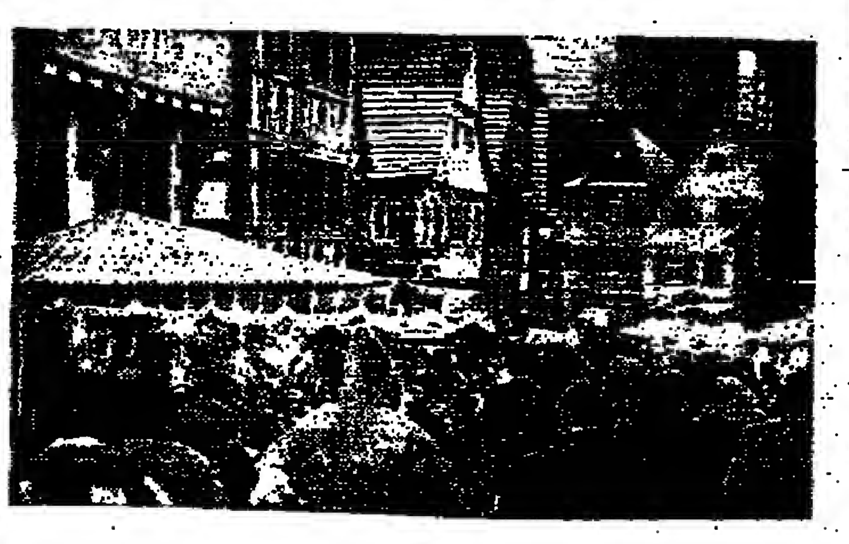
Banking hours: Monday to Friday, various times between 0830 and 1530 (most open until 1800 on Thursdfay).

Shops: Monday to Friday, usually 0800 or 0900 to 1830 (close 1400 on Saturdays, 1800 on first Saturday of the month).

Telephone: international dialling code, 49, followed by 228 for Bonn and 69 for Frankfurt. Telex is widely used and telegram services are available through post offices.

Electricity supply: 220-250V,AC.

For further information, including listings of chambers of commerce, banks, hotels, and other useful addresses for the overseas business visitor, contact information sections of German consulates and business travel agents; or refer to the Europe Review, 1988; West German section; published by World of Information: 21, Gold Street, Saffron Walden, Essex, CB10 1EJ, which gives economic and business reports on most European countries.



Pictures by Terry Kirk and Alan Harper

Scenes (above) at Frankfurt airport – one of West Germany's major venues for international trade fairs. Large numbers of overseas visitors are attracted to exhibitions in such areas as textiles, foodstuffs, machinery and printing. In contrast to these major events, shoppers (left) throng the narrow streets of Besigheim on Neckar, a small medieval Swabian town.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 31 1988

INSIDE

Sink the Bismarck and float in London

Fairey, the British engineering group, has a long, distinguished, and distinctly chequered history. Founded in 1915, it went on to play a role in sinking the German battleship Bismarck with its Swordfish aircraft, before itself suffering a financial disaster in the 1970s. More recently, it was the subject of a management buy-out and is it now set for a flotation on the main London market as a specialist engineering group making products ranging from nuclear power station components to video tape parts. **Page 24**

Agonising times for bankers

Controversy over Royal Bank of Scotland's role in financing the bid for Scottish & Newcastle Breweries has underlined the increasing difficulties posed for international banks by the worldwide takeover wave. Banks are facing growing conflicts of interest, becoming forced to choose between two, often valued, customers. **Page 21**

Digging holes in Switzerland

Two years after a chemicals fire in Basle seriously polluted the river Rhine, huge holes are being dug around the Swiss city. They would prevent the polluted water from any future accidents at local chemical plants from contaminating the river. Peter Marsh, in the Business Column, examines the European chemicals industry's approach to environmental matters. **Page 38**

Making an innovative splash in Eurosterling bonds

An innovative fixed rate, mortgage-backed £100m issue for Household Mortgage Corporation has had a considerable impact on the Eurosterling sector of the bond market, though a rush of similar deals does not seem very likely. **Page 21**

Pebereau wins go-ahead

Georges Pebereau and his partners have received permission from the French banking authorities to increase above 10 per cent their shareholding in Société Générale, France's fourth-largest bank. **Page 22**

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Managing to export premium quality

Nick Bunker profiles the driving force behind AIG, one of the leading US insurers

"EVERYONE thinks they just have to mouth the words, and hire some of our people, and then they can turn themselves into another AIG", says 62-year-old Mr Maurice Greenberg, sipping fruit juice after an early morning work-out on his exercise bicycle.

The acid tone, and the strenuous physical regime, are the hallmarks of Mr Greenberg. So, too, is the scathing commentary on aspiring rivals to American International Group's position as the largest and most profitable supplier of insurance to corporate America. Mr Greenberg, one of the insurance industry's few charismatic managers, has been president since 1967 of AIG, a property/casualty insurer with a stock market capitalisation of $11.7bn, which is 30 per cent larger than Citicorp's.

Amid the rhetoric surrounding what some foresee as an impending upheaval in European insurance, triggered by the liberalisation of local markets due by 1992, last week's listing on the London Stock Exchange of AIG's shares aroused little comment. Yet Mr Greenberg's attempted use of the listing to raise the group's profile in London was significant, in two respects.

The principal one was his striking confidence about AIG's prospects despite the storm clouds that have gathered over the US property/casualty market.

The second was the subtle difference in attitudes towards 1992 that separates AIG, historically the most successful money-making machine in US insurance, with 1987 pre-tax operating profits of $1.11bn, from European counterparts.

By any standards, AIG is unusually complex. As evidence of AIG's underwriting skill, its executives hand out a manual for insurance brokers which lists AIG insurance products under 366 categories, starting with Aerosol Canning and Animal Mortality.

AIG's history is equally unusual. Founded in 1919 in Shanghai, its initial expansion was in the Pacific. It is the largest life insurer in the Philippines, and the only foreign insurer to obtain a substantial share in the Japanese market.

The key period of its growth, to 1987 total premiums of $11.28bn, has been the 25 years of dramatic US growth since the arrival of Mr Greenberg.

The turning point was his decision in 1962 to transform AIG's core US company, American Home, by abandoning the traditional system by which property/casualty insurers sold via costly armies of independent agents.

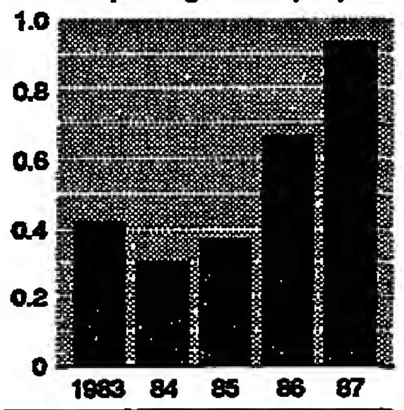
Maurice Greenberg: one of the few charismatic managers

Instead, American Home was to specialise in policies for major commercial and industrial risks sold via large brokers, supported by large scale buying of reinsurance.

Even AIG, though, is now having to reckon with threatening industry-wide problems. The strongest cyclical recovery in premium rates seen by the US

American International

Post tax operating income ($bn)



property/casualty industry has faltered, and the market for corporate insurance risks is headed into the seventh price war it has endured since 1945.

A measure of AIG's resilience, however, is that it is protecting itself against trouble ahead by using the strong cash flow it has enjoyed since 1986 to make huge additions to its property/casualty loss reserves. Having raised them from $4bn at end-1985 to $8.67bn at end-1987, it is still adding to them a rate of $600m every three months.

On a broader front, the industry is under political attack. In California, it faces hostile voter initiatives on the November 8 election paper calling for automobile insurance premium rate rollbacks of between 7 and 50 per cent.

The 1986 Federal Tax Reform Act has hit hard at property/casualty insurers by raising enormously the tax charge that applies to their loss reserves.

Environmental pollution, Mr Greenberg says, is "potentially as big as asbestos, or even larger" - though he believes a recent trend for most court decisions to run in insurers' favour is a favourable sign.

None the less, he says: "Right now, it's a legal shoot-out between insurers and industry, which makes no sense." He suggests toxic waste clean-ups could be paid for by a fund created with an "environmental fee" added to corporate insurance premiums.

The new tax law is equally vexatious, though according to Mr Greenberg it has one potentially positive consequence: that the dawning realisation among insurers' of their higher tax bills will help curb price-cutting. In AIG's case, in the ten years from 1977-86, its total net group tax payments totalled only $514m, according to its 1987 annual report. The figure could be as high as $400m in 1988 alone.

In Europe, Mr Greenberg says AIG's growth in the industrial and commercial risks market will be predominantly organic. He sees that as the best way to preserve underwriting disciplines in a market which could simply face a squeeze on margins after 1992. He is sceptical about the type of joint ventures based on cross-shareholdings being pursued by some European insurers. "Everybody taking stakes of 20 per cent in everybody else doesn't make a lot of sense. It looks more defensive than anything else," he says.

The one exception to his principle of organic growth for AIG is currently in financial services in the UK. Via a London-based subsidiary called Pine Street Investments, AIG has been seeking investments in niche operations, such as its 20 per cent stake in the Household Mortgage Corporation. It also has 5.3 per cent of Kleinwort Benson, the merchant banking group, but Mr Greenberg says this is "a passive investment."

Coping with the awful cussedness of things

Anthony Harris in Washington

THE DOLLAR is under heavy suspicion in the currency markets again, and it is easy enough to understand why. For some readers the August trade deficit of $12.2bn may look conclusive in itself, but even if the trade figures were good, the current state of the election campaign and of the US economy in general is unsettling.

It is clear that these fears are not universal, for if they had been we would by now be watching a dollar crisis rather than a downward drift. I am part of the minority which thinks that the gloom is overdone, but that is all the more reason to state the case for the prosecution.

The political argument is convincing in its own terms. It states simply that Vice-President Bush, the likely winner, has run such a shabby campaign and remained so vague about his economic policies, that he will win office without power.

A Democratic Congress will confront him in a sullen rage, and do its best to obstruct any policies he does unveil, even policies for the national good. They will want to see him stew a bit first.

This case may be overstated. Most commentators – including some notable Republicans – are themselves angry and contemptuous about their party's smear campaign and want to see him suffer for it. However, Mr Bush himself seems embarrassed and is trying to raise the tone a bit in the closing days – too late, though, to make himself popular on Capitol Hill. It does seem likely that he will be rather a weak and ineffective President.

The real question is how much this matters. From the market point of view, his weakness was discounted as soon as he won the primaries. He has always been regarded as a weak man, and it is quite striking how little market reaction there has been to his advance in the opinion polls.

However, if the economy could be expected to sustain the balanced progress shown in the last eighteen months or so, a period of domestic stalemate, with detente abroad, might be very welcome. President Reagan's second term has been rather like that, since he too won without a mandate.

What are the chances of such progress? This is the really puzzling question. The one clear fact is that domestic demand is cooling down at the moment.

This would only be a suspicion if it rested on just one set of figures, such as the half-point fall in real personal spending reported on Thursday. US official figures are refreshingly frank about their own margins of error. However, every figure – for the labour market, where wage increases are abating, for commodity prices, for industrial orders and output – tells the same story, and nobody questions it.

Adjectives are a different matter, though. Some commentators see a soft landing, rather like the helpful easing of domestic demand caused by the market crash a year ago; the slowdown makes them more optimistic.

If consumers are spending less and saving more unbidden – which is now the well-researched thesis of Prudential Bache and one or two other well-regarded market members – then the stalemate in Washington will not matter.

This is a minority view, though. Most commentators expect the slowdown to be temporary and look for some rebound. The sharp fall in durable goods orders ten days ago, for example, was almost unanimously dismissed as a freak as soon as the figures appeared. Only a few unrepentant monetarists look at the M2 figures, read a future recession, and blame the Federal Reserve Board for being over-cautious.

If you are not a monetarist – and the Fed is certainly purely pragmatic these days – the best reason for unease is not to be found in any of the figures, but simply Murphy's Law, or what one American folk-philosopher called the awful cussedness of things in general.

In other words, the present trend of sustainable growth, balanced inventories, well-behaved labour markets, and improving competitiveness in manufacturing, is simply too good to last. Things don't run as well as that.

For some time, though, they have run as well as that, and have run pretty well in many other advanced economies. Is this just a happy coincidence, or something more? It seems to me possible, at least, that some of the "problems" which worry a number of commentators (especially US Democrats), high international capital and high real interest rates, are in fact solutions.

Free capital movements, as everyone knows by now, make it possible to finance large trade imbalances which would have caused major crises under earlier regimes, and to keep financing them for long periods. Partly for that reason, they make it much harder for governments or central banks to manage demand.

Actions which would once have caused financial crunches or recessions are diffused through the world economy, and are heard only as a distant warning rumble. Those in authority sometimes feel worried and impotent, but businessmen find life more peaceful.

World crises of inflation or slump may still cause upheavals; but perhaps such crises are unlikely as long as interest rates are high enough to discourage speculative inventory-building, and enforce sensible investment appraisal.

It is clearly harder to damp down financial speculation, but some progress in being made through tighter supervision, reinforced by the occasional *memento mori* in the shape of a crash. Our new world of floating rates, derivative markets and computerised trading seems to be imposing some rather old-fashioned guidelines for policy: fiscal responsibility and financial prudence.

The trouble is that even if this *equilibrium* exists it may well be unstable, like a novice on a bicycle. If the markets fear inflation, they will act to check it. But if they fear a US recession, they may well cause it, and if they fear that the dollar is over-valued, they will certainly try to knock it. That is why current worries about the US trade balance are so important.

Some of the worries seem ill-informed, like current Japanese concerns with the US current account as a whole. US current account figures are not only inaccurate, like everyone else's, but badly distorted by valuation problems, which weaken the balance when the dollar is strong, and vice versa.

But if it is true, as some now fear, that US export growth is stalled while the economy is losing drive, a fall in the dollar is not only likely, but necessary.

The trade figures will largely settle that question before the next President is inaugurated.

If they are bad, a President Bush will live to wish he had kept more friends, and a President Dukakis might well do something silly because of what he said in his last populist drive to beat Bush. Keep your fingers crossed.

Economic Notebook

Lawson's autumn harvest

BARRING a cabinet revolt – a remote eventuality with this Government – it now seems certain that Mr Nigel Lawson, the Chancellor, will present one of his two annual set pieces on the British economy in the House of Commons tomorrow.

The Autumn Economic Statement has none of the glamour or tradition of the March Budget. But it is an *important* event none the less, setting out the Government's spending plans for the next three financial years and presenting the Treasury forecast for the economy in 1989.

This year's statement will be more keenly awaited than most. And it is the economic forecast that is likely to attract most attention.

The Government's spending plans were agreed in principle last week after protracted negotiations between the Treasury and the spending departments. For the second year running, Mr John Major, the chief secretary to the Treasury, managed to settle the various disputes without calling on the so-called Star Chamber committee of senior ministers to arbitrate.

This success means that the still little-known Mr Major is a man to watch in the future. But tomorrow, all eyes will be on Mr Lawson who will speak after the plans have been approved in cabinet.

Mr Lawson dislikes the twice yearly obligation imposed by law to forecast economic developments. With this year's Budget forecasts in disarray, few can blame him. He is presiding over an economy that is very different from that envisaged in March.

The good news is that economic growth is much faster than anticipated. The latest independent forecasts estimate that gross domestic product could grow by nearly 5 per cent this year compared with 3 per cent forecast in the Budget.

The bad news, as every consumer and householder knows, is that inflation, at 5.9 per cent and rising, is much higher than 4 per cent rate forecast in the Budget. Bank base rates, at 12 per cent, are trying to control booming demand. The current account balance of payments deficit for the first nine months was nearly £10bn against a Budget forecast of a £4bn deficit for the whole of 1988.

Mr Lawson's statement will therefore be studied closely for any clues about when inflation or the current account will improve.

The Chancellor originally said inflation would peak in the first half of 1989 but lately has been more vague, saying only that the turnround would be in the course of next year.

As there is general agreement that inflation will reach 7 per cent before turning down, the figure to look for will be the projected annual rate of inflation in the fourth quarter of 1989. Anything higher than 5 per cent will suggest that the present upsurge in prices is more a bulge than a "blip" and could, therefore, be a key influence in the impending Autumn wage round.

The current account figures are important for sterling, which Mr Lawson wants to stay strong to help control inflation. He has already put a lot of bad news in the market: indicating in September that the 1988 current account deficit will be around £12bn and forecasting earlier this month that it would probably take until 1990 before it falls significantly.

Boost credibility

But the fall in the pound that followed his last remarks showed that the current account can still put downward pressure on sterling.

In forecasting the current account, Mr Lawson may be tempted to add a little to the bad news already known for this year, thus boosting his credibility, and hold out the hope of a modest decline in the deficit in 1989. With an estimated £12bn of short-term "hot" money invested in sterling, a shock forecast for 1989 could precipitate a run on the pound and possibly force further increases in interest rates.

But before rushing to judgement, the markets will look very closely at the Chancellor's overall fiscal stance. Normally the Autumn statement is the occasion for intelligent guesswork about how much the Chancellor will want to "give away" in taxes the following March. Because demand is growing so strongly, the scope for tax cuts seems minimal and attention will be focused on what size budget surplus Mr Lawson is planning.

After a budget surplus of £3.7bn in the first half of this financial year and with corporate tax payments still to come, the final 1988-89 surplus could be £10bn or even higher. If Mr Lawson forecasts a surplus much below this level, his counter-inflationary credentials will be seriously questioned.

City analysts said last week that £8bn is the minimum budget surplus that Mr Lawson can credibly announce for 1988-89. Most were hoping that he would listen to his Treasury advisers and underpin his spending figures for 1989-90 with an "assumption" that next year's budget surplus will stay around this high level.

Peter Norman

THIS WEEK

ECONOMIC NEWS is expected to be dominated this week by Mr Nigel Lawson, the UK Chancellor, unveiling his Autumn Statement to the House of Commons.

The statement would provide information not only on public spending plans but what the Treasury is forecasting for the economy in the year ahead.

At the centre of analysts' attention will be the forecasts for the current account deficit and inflation. After last week's better-than-expected trade numbers, a relatively upbeat assesment could further encourage financial markets.

Statistics due to be published include figures for official reserves in October, released by the Treasury on Wednesday. These could provide a rough guide to the extent of Bank of England intervention on foreign exchange markets.

With the authorities determination to prevent a sterling depreciation, sales of foreign currencies may prove to have been substantial. However, underlying reserves could have been raised by as much as $1bn as the authorities bought dollars in anticipation of paying off a $2.5bn floating rate note.

The consensus of analysts forecasts compiled by MMS International, the financial research company, is for the underlying level of reserves to be unchanged from September.

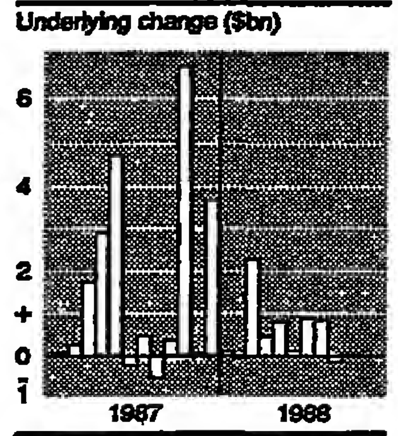
US employment figures for October are released on Friday. The consensus is for an employment rate of 5.4 per cent and a rise in civilian and non-farm payrolls of 230,000.

US leading indicators for September are released tomorrow. The indicators look forward three months and include factory output, money supply, consumer credit and prices. The consensus is for a rise of 0.1 per cent.

West German industrial production figures could be released this week – possibly

UK official reserves

Underlying change ($bn)



Thursday or Friday – with industrial orders released the following day. Both will give an indication of the strength of the West German economy.

The Bundesbank central council holds its regular bi-weekly meeting on Thursday and will discuss interest rates and the economic outlook. A change in West German interest rates appears unlikely.

In Japan, economic statistics due for release include a number of employment indices and housing start figures for September.

Other events and statistics (with MMS International consensus in brackets) include:

Today Bank of England final money supply figures and bill turnover statistics for September. Provisional analysis of bank lending for house purchase in the three months to September. US productivity and costs in three months to September.

Tomorrow US construction expenditure in September.

Wednesday US new one-family homes sold and for sale for September (-1.7 per cent) and factory orders (-2.0 per cent). UK Department of Employment publishes Employment Gazette. Thursday UK housing starts and completions in September.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Conflict hounds M&A bankers

WHEN Royal Bank of Scotland decides to help in financing the £1.6bn ($2.8bn) hostile bid by Elders IXL of Australia for Scottish & Newcastle Breweries, it embroils itself in a local political controversy for disloyally backing a foreign raider against a local concern.

Chemical Bank and Dresdner Bank draw fire for their backing of South African controlled Minorco in its adversarial £2.9bn bid for Consolidated Gold Fields.

As bid battles become more aggressive, international banks, which in the past have preferred their lending activities to be conducted quietly, are finding themselves in the centre of more controversy.

The problems are not always political. Bankers say M&A business is involving them in more and more conflict and forcing them to choose between two, often valued, customers.

Until two or three years ago most banks eschewed lending in hostile bids. However, that has changed, as intense competition has driven down returns on conventional corporate credits to almost nothing.

In an effort to increase returns bankers have been ready to enter into riskier transactions, such as bid financings. Even here, though, returns are shrinking. Grand Metropolitan put together a $6bn financing for its takeover bid for Pillsbury, the US foods group, at an interest margin of ¼ percentage point. Some banks believe this margin might have been twice or four times as large a year earlier.

At the same time, competition has weakened the relationships of between bankers and their corporate clients. When the only distinguishing feature among financings is the price at which they are offered, small wonder that companies take the cheapest option, and that banks in return ally themselves with the corporate customers which are going to net them the most money.

The bad feeling that this engenders is increased by the chinese walls that operate in banks. In the old days, when independent merchant banks advised on bids and commercial banks lent money, these conflicts did not arise.

Earlier this year, Midland Montagu was named as a dealer on a commercial paper programme for Ranks Hovis McDougall and as a prominent supporter of Goodman Fielder Wattie which had RHM in its takeover sights. This situation did not last for long. When it comes to profitability, a CP programme has nothing on M&A business, even when the bid is thwarted.

It is increasingly common for targeted companies to do what they can to strike back at the banks financing their opposition. Sometimes though the headline effect exceeds the importance of the move. When Citicorp backed Barker & Dobson in its bid for Dee Corporation, Dee ceremoniously cut all ties with the bank. This made quite an impact at the time but the annual revenue loss to Citicorp is less than six figures.

Similarly, the question of whether Royal Bank backs Elders has no bearing on the outcome of the bid. If it does not provide finance, there are dozens which will.

Many bankers in London believe such conflicts will become more and more common. The decision on whether to back the bidder or the takeover target becomes a matter of policy at the highest level.

As the prospect grows that US techniques will be imported to Europe, possibly with the help of junk-bond financing, the M&A business is itself destined anyway to become more of a political issue.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	4,723.2	0.0	32.5	11,396.9
Prev	4,916.4	0.3	589.7	10,143.8
Other	2,350.4	37.7	75.6	2,299.0
Prev	2,221.0	0.0	1,273.4	1,635.4

Secondary Market

US$	25,204.5	1,987.0	6,002.2	6,122.5
Prev	15,662.4	1,155.2	5,906.1	5,906.5
Other	15,784.0	1,271.5	5,345.4	28,328.6
Prev	17,544.7	1,257.5	4,910.1	29,472.3

	Cedel	Euroclear	Total
US$	12,955.5	36,273.1	49,228.6
Prev	17,934.8	23,404.5	41,339.4
Other	25,623.3	31,327.9	[illegible]
Prev	25,454.0	32,946.4	58,300.4

Week to October 27, 1988. Source: AIBD

INTERNATIONAL BONDS

Novel mortgage-backed issue widens sector spreads

LAST WEEK'S innovative fixed rate mortgage-backed £100m issue for Household Mortgage Corporation swiftly made its mark on the Eurosterling sector as the yield spreads over comparable gilt-edged issues for many UK building societies widened markedly.

While a stream of these new top rated securities could make tapping the sector more difficult or at the least more expensive for the building societies, the likelihood of a rush of similar deals still seems fairly remote.

In the UK corporate sector of the fixed rate Eurosterling market, largely made up of banks and other financial institutions, yield margins over gilts widened following the HMC issue, on some building society issues by around 15 to 20 basis points.

Some dealers attributed this to a general widening of spreads which they traced back to recent ructions in the US corporate bond market.

Spreads in the US domestic and Eurodollar bond markets on several industrial companies widened last week in response to credit concerns in the wake of the proposed massive buyout of RJR Nabisco, and of Kraft by Philip Morris and this appears to have had an adverse effect on sentiment in the UK corporate sector.

However, this hypothesis was disputed by some sector analysts who felt that leveraged buyouts of such dimensions were not likely to become a feature of the UK corporate scene in the near future.

A more plausible explanation for the widening would be the emergence of the HMC issue which came to the market at a substantial premium over many of the seasoned building societies even though its mortgage-backed structure allows it to carry an extremely attractive AAA credit rating.

If the building societies carry credit ratings at all, they are certainly not prime AAAs but usually only a single or double A rating.

Issues at the five-year maturity from, among others, the Halifax and the Leeds, saw their spreads widen to over 60 basis points over gilts from less than 50.

Others saw spreads go out to levels around 70 and 80 basis points. The HMC issue was still at levels of around 80 basis points by the end of the week.

This gap in credit ratings could theoretically make it more difficult for syndicate managers to launch deals for some of the smaller building societies although it is unlikely to affect perceptions of the top rated among them which include the Halifax and the Abbey National.

The larger societies have an extremely solid domestic investor base and have also won many recent converts from abroad with a series of fairly priced and well-executed deals.

However, emotional rather than practical motivation can often be behind investors' choices to buy particular issues. While the specialist mortgage lenders' issues do carry a prime rating, the investor rarely understands the mechanism by which this is achieved.

A credit-conscious investor may choose to buy the issue solely on this account but he must also take into account that the issuer is not an operating entity with a profit and loss account and a visible public profile.

This is precisely what the building societies do offer and if the previous performance of most structured financings is anything to go by, investors would still seem to hold a preference for issues from borrowers with a name they recognise.

Whether or not these issues are seriously threatened by fixed rate mortgage backed deals will also depend on how many are launched and several conditions must be met before this type of structure is viable.

JP Morgan as lead manager managed to achieve an extremely attractive cost of funds on the HMC deal via the swap into floating rate sterling at a margin just above the London interbank offered rate, far lower than the margin which would have been set on a floating rate note issue.

Apart from the swap, another vital element is the existence of a AAA-rated entity prepared to buy back the mortgages, thus ensuring the final five year maturity on the deal.

AIG, the US insurance group, will provide the put on the HMC issue but institutions willing and able to fill this role are thin on the ground while their capacity to write this kind of put is also limited.

Building society treasurers might glean some comfort from a look at the floating rate note market which contains all the UK mortgage-backed securities issued to date, with £4bn ($7bn) currently outstanding.

Despite the superior official ratings on the mortgage-backed paper, this does not seem to have affected its relationship with the conventional issues which still trade at a significantly tighter margin.

One senior building society finance officer conceded that the issue was viewed as something of an inconvenience. Any builders who had been contemplating tapping the fixed rate Eurosterling sector are now expected to wait for spreads in the sector to settle down.

Generally, the prospect of more similar issues was received with equanimity with several potential borrowers pointing out that fixed rate Eurosterling was now only one of the many markets that building societies, with the recent enhancement of their investor profiles, particularly internationally, now have the option to tap.

● The Canadian dollar sector received a further sign of approval last week with the issue of a five year C$100m deal for Ferrovie dello Stato, the Italian state railway, which carried the guarantee of the Republic of Italy.

This is the first time for some years that the Italian authorities have consented to do this with an issue which is not denominated either in US dollars or in Ecu. Banque Paribas Capital Markets was the lead manager on the issue which received an enthusiastic reception, attributed partly to the top quality guarantor.

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Tokyo Electron Ltd.‡◆	150	1992	4	5	100	Nomura Int.	5.000
SMK Corp.‡◆	60	1992	4	5⅜	100	Wako Int.Europe	5.375
Japan Storage Battery‡◆	50	1993	5	5⅜	100	Nikko Secs.(Eur.)	5.375
Nippon Tel.&Tel.◆	250	1998	10	9⅜	101¼	Merrill Lynch	9.179
Footwork Corp.‡◆	45	1992	4	5⅜	100	Daiwa Europe	5.375
Qantas Airways◆	180.6	1998	10	9½	101¾	Banque Paribas	9.225
BFCE◆	150	1995	7	9¼	101¼	LTCB Int.	9.002
Union Bk. Finland (h)◆	100	1990	2	9½	101⅛	Nikko Secs.(Eur.)	8.862
Tobu Store‡	100	1992	4	(5)	100	Yamaichi Int.(Eur.)	*
Nat. Westminster Bk.¶◆	350	-	-	(d)	100	Merrill Lynch	-
BfG Finance Co.◆	100	1993	5	9⅜	101⅞	Nikko Secs.(Eur.)	8.894
World Bank◆	300	1998	10	9¼	101½	Deutsche Bk Cap.Mkts	9.016
Seiyu Stores◆	150	1993	5	9⅜	101¾	Nomura Int.	8.925
First Austrian Bank(j)◆	50	2003	15	9	101½	Deutsche Bk Cap.Mkts	-
CANADIAN DOLLARS							
Norddeutsche Landesbk.◆	75	1992	4	10¼	101¾	NordLB	9.701
Ferrovie dello Stato◆	100	1993	5	10¼	101⅞	Banque Paribas	9.758
AUSTRALIAN DOLLARS							
Nat. Australia Bk◆	50	1991	3	14	101¾	Hambros Bank	13.258
IBM Australia Cr.(e)◆	40	1991	3	13⅞	101⅝	Westpac Banking	13.155
Barclays Aust.(Fin)(f)◆	50	1991	3	13½	101¼	BZW	12.971
HONG KONG DOLLARS							
Qantas Airways (l)◆	391	1998	6	(m)	-	Man.Hanover Asia	-
D-MARKS							
EIB◆	700	1998	10	5⅞	100¼	Deutsche Bank	5.841
Republic of Turkey◆	300	1995	7	6½	100	Dresdner Bank	6.500
Zanders Int.Fin.(k)‡◆	100	1998	10	6½	120	Deutsche Bank	4.032
Nippon Koki Co.★★◆	20	1993	5	5⅝	100½	IBJ (Germany)	5.505
Venezuela◆	100	1993	5	8¼	100	WestLB	8.250
Bk.of Tokyo (Curacao)◆	100	1993	5	5⅝	101¾	Bk of Tokyo(Germany)	5.218
SWISS FRANCS							
Bond Int.Gold Cay.Is.(a)◆	100	1995	-	4	100	TDB Amex Bank	4.000
City of Vienna(b)◆	75	2004	-	4⅞	101⅛	Wirtschafts-und P'bk	4.738
City of Vienna(b)◆	75	2009	-	5	101	Wirtschafts-und P'bk	4.925
Ikegami Tsushinki★★§	100	1994	-	(½)	100	Nomura Bk (Switz.)	*
Kawasaki Kasei Chem.★★§	30	1994	-	(½)	100	SBC	*
Toyo Chemical Co.★★§	25	1993	-	(½)	100	Bqe Paribas(Suisse)	*
Daiki Aluminium (g)★★§	50	1993	-	(½)	(100)	Handelsbk NatWest	*
American Health (i)§	50	1998	-	(7½)	100	S.G.Warburg Soditic	*
ECUs							
UBS Finance NV◆	150	1993	5	7½	101⅞	UBS Secs.	7.042
Aegon◆	100	1991	3	7⅜	101¼	SBCI	6.900
Hypobank Int.◆	100	1993	5	7½	101½	Bay.Hypobank Munich	7.133
STERLING							
HMC M'gage Notes 101◆	100	1993	5	11⅛	102¼	J.P.Morgan Secs.	10.524
LUXEMBOURG FRANCS							
EIB★★◆	300	1995	7	7½	100¼	Credit Europeen	7.453
City of Goteborg★★◆	300	1993	5	7½	100½	Banque Paribas (Lux)	7.377
FRENCH FRANCS							
BSN(c)‡◆	1.344bn	1996	8	8	128	Lazard Freres et Cie	3.864
EIB◆	2bn	1998	10	8.7	100	Credit Lyonnais	8.700
EIB◆	1bn	1992	4	8⅝	101⅞	CCF	8.206
YEN							
West.A'tralia Treasury◆	15bn	1993	5	5	101.35	Nikko Secs.	4.749
Prov. of Neva Scotia◆	30bn	1998	10	5.4	100¾	Yamaichi Secs.	5.373
PK-Banken◆	20bn	1995	7	6	101⅞	Nomura Int.	5.668
Skopbank(m)◆	8bn	1998	10	7	101⅞	Yasuda Trust Europe	6.736

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ¶Variable rate notes. ◆Final terms. a)Convertible into gold cash equivalent of gold price. b)Each tranche may be increased to SFrs100m maximum. c)FFr840m aimed at international investors. d)Quarterly in advance over Libor - first three months 50bp over 3m Libor. e)Fungible with existing A$80m launched earlier this month. f)Fungible with A$100m deal launched Sept. 1988. g)Indicated put option 31/3/91 at 100½ to yield 3.978. h)Redemption linked to Yen/US$ exchange rate. i)Dual-currency - call after 5 years at SFr issue price or prevailing $ exchange rate, whichever is higher. j)Retractable bond - after 4 years borrower has option to refix coupon and maturity for any period between 2 and 11 years after that. k)Each DM1,000 has 2 warrants to buy 4 preference shares at DM102 per share. l)Serial bond issue (payable monthly): 1yr 8.6%, 2yrs 8.85%, 3yrs 8.86%, 4yrs 9.1%, 5yrs 9¼%, 6yrs 9.4%, 7yrs 9⅜%, 8yrs 9.85%, 9yrs 10⅛%, 10yrs 10½%. m)Coupon in Australian dollars. Note: Yields are calculated on AIBD basis.

ØTI ~ 1TOP

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Gains at risk over inflation fears

THE GILT-EDGED securities market held on to the gains it made after Thursday's trade figures and ended the week higher for the fifth week in succession.

However, many analysts are beginning to wonder if those gains can be maintained in the face of the deteriorating outlook for inflation.

This outlook will become the key to the market for the rest of the year. Advances after that will depend on whether a rise in inflation to 7 per cent or more will prove as temporary a blip as the Chancellor would like financial markets to believe.

The argument the Treasury advances about the prospective rise in inflation is that the inclusion of mortgage interest rates distorts the retail prices index. This is not completely true.

Britain's core rate of inflation (the retail price index excluding housing) has been rising steadily throughout this year.

Its low point was 3.1 per cent in February and rose without interruption to 4.7 per cent in September. The RPI inclusive of housing was 3.3 per cent in January and 5.8 per cent in September.

More worryingly, the core rate is now at its highest since 1985. In fact it is higher than in every month of 1985, except for April and September.

During 1985, the underlying rate of increase in average earnings was 7.5 for every month of the year, except for September (7.75 per cent).

If the up-tick in underlying inflation is not being generated by the perverse effects of the mortgage rate on the RPI, where is it coming from?

The pressure for price rises is emanating from the companies that are widening their profit margins because of the buoyancy of demand, and because they are paying their workers more.

Whole economy unit labour costs have risen from 3 per cent last year to around 5 per cent.

The underlying growth in earnings is now 9.25 per cent. It is pointed out, fairly, that pay settlements are only around 6 to 6.5 per cent and that the remainder of the growth in earnings reflects productivity bonuses and overtime payments.

Less wisely, it is assumed that when the slowdown occurs earnings growth will fall in line with the contraction in output and productivity.

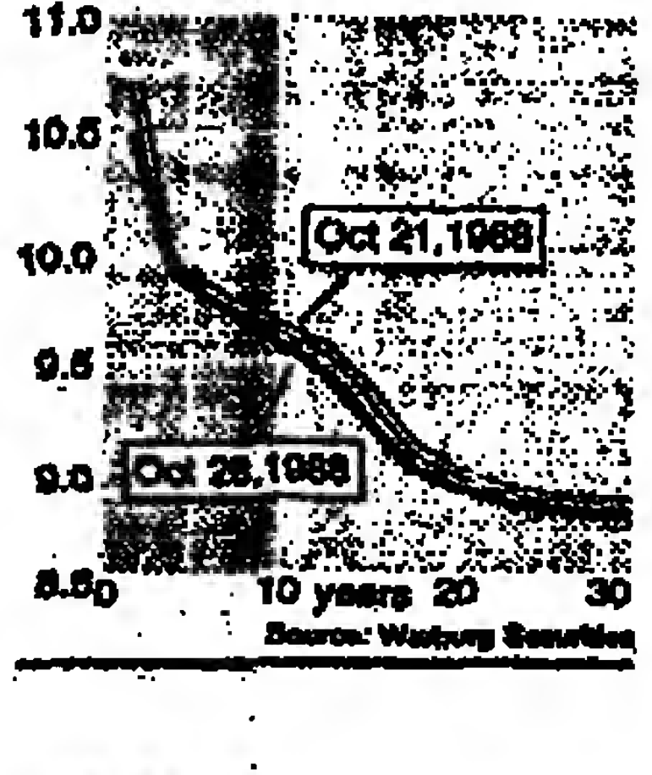
Underlying this is a belief that the productivity bonus is flexible. It is not. Payments for productivity have been paid on the basis of productivity gains from changes in work practices.

Now that the work practices have been changed the extra pay continues; it can not be taken away from workers simply because demand in the economy slows down. Overtime is another matter; if it is not worked it is not paid.

Although there is now no such thing as the autumn wage round, some settlements have been made and pay negotiations started.

UK gilts yields

Related to par (%)



Source: Warburg Securities

The Ford workers will get around 8.5 per cent; the police have been awarded 8.5 per cent; the fire service workers are on track for a settlement in excess of 8.4 per cent.

Lucas' car workers in Birmingham have rejected a 6 per cent offer. The key engineering workers' settlement is due in November and while they have accepted around 5 per cent in the past two years it is likely they will be seeking more.

With profits buoyant and inflation rising, it seems likely that pay settlements will cement at a 8.5 per cent level, at least.

Last week's CBI quarterly survey gave little confidence that employers were prepared to resist this. Prices and costs were again forecast to rise.

If the outlook for inflation is hardly propitious, equally there are few signs that the "great hope" of a slowdown is near.

If last week's trade figures confirmed anything, it was that domestic demand is still buoyant.

The latest economic outlook from McCaughan Dyson Capel Cure contains a statistic that most in the market should find chilling.

Equity withdrawal from the housing market was equivalent to 2 per cent of consumers' expenditure in 1982 and grew to 8 per cent of the same in 1987. (For methodology see the Bank of England's Quarterly Bulletin, March 1985.)

This year, equity withdrawal – which would seem to be a powerful force behind consumption – will probably be higher.

Unless interest rates are set at a level that will cause a fall in nominal house prices, equity withdrawal seems likely to continue, especially if real earnings continue to rise.

● The Bank was a buyer of gilts every day last week, and dealers said they detected a firmer tone to its activity. At the short end of the market, the building societies have also been active.

With demand for mortgages tapering off, they may have been forced to buy some very expensive short-dated stock, which is currently discounting a base rate cut of 2 percentage points!

Simon Holberton

US MONEY AND CREDIT

Flight to quality gathers pace

A RALLY based on hysteria in yet another market is not the most healthy rally.

The excitement over mega takeover deals obscured the underlying weakness in the equity market early last week, until Mr Alan Greenspan, Federal Reserve Board chairman came out with his warnings about the financing of leveraged buy-outs.

Markets listen when the chairman of the Fed talks about hedging against times of high inflation or recession within a fortnight of a Presidential election.

At the same time, the flight to quality into Treasury bonds last week as the corporate market and equities sagged masks some of the vulnerability of bonds in anything but the short term.

There is no doubt that last week saw the balance between investment grade paper and junk bonds start to be redressed.

Junk bond salesmen love talking about yield and hate contemplating the possibility of recession. No-one doubts that there will be a recession: only the timing of it is an issue.

Junk bond salesmen also love talking about the discipline imposed on managements by high leverage.

However, debt-burdened corporations may find that discipline a little too much to stand once the economy really starts to sag.

While Wall Street indulges in a fee-earning orgy, it is sometimes difficult to remember that these are real companies with thousands of employees, not just a numbers game in the minds of investment bankers.

The boost to Treasuries last week, as the equity market started feeling queasy about the long-term implications of buy-outs for corporate America and as the corporate bond market contemplated the until-now inconceivable notion that investors might baulk at buying any old junk, must surely only be a short-term one.

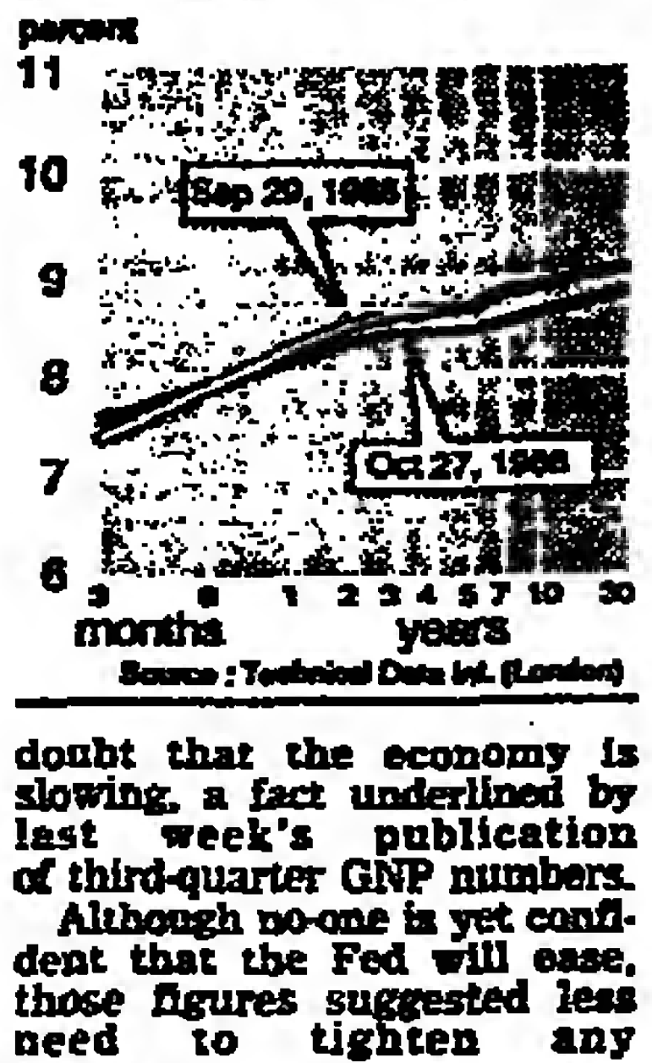
The prospect of a highly indebted corporate sector and a vulnerable financial sector with the savings and loan crisis only just beginning cannot inspire confidence in anyone.

There are other longer-run influences on the bond market that give mixed signals.

On one hand, there is no doubt that the economy is slowing, a fact underlined by last week's publication of third-quarter GNP numbers.

US Treasury yields

percent



Source: Technical Data Int. (London)

Although no-one is yet confident that the Fed will ease, those figures suggested less need to tighten any further.

However, the figures were not unequivocally good news. Consumption remains strong and there was more evidence that progress in cutting the trade deficit had become grindingly slow.

The deficit actually grew during the third quarter and figures already released covering September suggest that the September trade report could be a shocker.

After a year that has been dominated by fears about higher inflation and stability on currency markets, the focus is now shifting back to concern about the trade balance and what is looking like an increasingly vulnerable dollar.

The bond market has been well supported by Group of Seven central banks which have continued to support Mr James Baker as he made the transition from Treasury Secretary to Vice President George Bush's campaign manager by throwing their reserves into the foreign exchange market to bolster the dollar.

That political and monetary co-operation will not go on forever and there seems a distinct possibility that, once the election is over and whoever wins, the illusory equilibrium on currency markets will vanish.

Mr Wayne Gantt, economist with SunTrust Banks in Atlanta, Georgia, believes spread between Treasuries and Japanese bonds with comparable maturities is some four percentage points, typically wide enough to attract strong Japanese buying in periods of relative dollar stability and the absence of Japan bashing."

The main hurdle before the refunding is this Friday's release of October employment figures.

The consensus of economists' forecasts compiled by Money Market Services of Redwood City, California, is for a 230,000 rise in the non-farm payroll compared with the 255,000 increase reported in September.

The other key economic indicator this week is tomorrow's leading indicators. The consensus estimate is for a rise of 0.1 per cent with the range of forecasts between a fall of 0.1 per cent and a rise of 0.4 per cent.

After the refunding, the key influence on the bond market will be any evidence of where currency policy lies and the commitment of G7 central banks to continually supporting the dollar.

If things start to look shaky there will a major test of the dollar downside after the election as markets finally react to worrying trends in the trade balance.

The dollar has already been sliding, and overseas investors gearing up for the November Treasury quarterly refunding are aware of this.

The details of the refunding package are due to be announced on Wednesday and the auctions themselves will take place next week, the week of the Presidential election.

Current guesstimates are that the refunding will total some $27.5bn and that there will be an auction of long bonds.

With the election and the auctions coming up, the Group of Seven will stand ready to support the dollar if necessary, defending the Y125 level on the dollar/yen and the DM1.75 level on the dollar/D-Mark.

The Japanese and Germans have been helpful for the dollar with small easings in their money market interest rates, and US bonds look reasonably attractive on yield.

Mr Philip Braverman of Irving Securities comments: "The on the foreign exchanges, the bond market will have to pin its hopes on the Organisation of Petroleum Exporting Countries following its long-run tradition of disagreeing on production quotas and crude oil prices falling.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.25	8.25	8.24	8.27	6.27
Three-month Treasury bills	7.38	7.44	7.26	7.53	5.14
Six-month Treasury bills	7.49	7.59	7.79	8.04	5.74
Three-month prime CDs	8.40	8.48	8.17	8.51	6.77
30-day Commercial Paper	8.12	8.10	8.02	8.20	6.57
90-day Commercial Paper	8.28	8.10	8.24	8.40	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	100⅞	+⅜	8.56	8.70	8.77
20-year Treasury	105⅞	+⅞	8.78	8.89	8.97
30-year Treasury	103¾	+⅞	8.79	8.91	8.89

Source: Salomon Bros (estimates).

Money supply: In the week ended October 17 seasonally adjusted M1 fell $1.2bn to $783.6bn.

NRI TOKYO BOND INDEX

December 1983 = 100	17/9/87	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	146.58	4.60	146.08	143.88	144.66
Government Bonds	147.66	4.26	147.17	144.19	145.88
Municipal Bonds	147.94	4.98	147.40	145.84	146.14
Govt.-guaranteed Bonds	149.11	4.99	148.61	147.35	147.51
Bank Debentures	140.00	4.51	139.45	137.84	138.03
Corporate Bonds	146.15	5.43	145.71	144.40	143.36
Yen-denom. Foreign Bonds	149.21	6.27	149.01	146.49	143.90
Government 10-year†	4.88		4.97	5.16	4.78

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

	Issued	Bid price	Chg on week	Yield
SOUTHWEST AIRLINES 6¼ 96	35	83	0	40.12
TEXACO CAPITAL 12¼ 94	500	104¼	0	17.79

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6¼ 93	20.0BN	105	+¼	5.30
AVON CAPITAL 6¼ 91	25.0BN	102¼	-1½	6.29
BARCLAYS O/S INV 6 96	40.0BN	103¼	+¼	5.40
B.F.C.E. 5¼ 96	20.0BN	103½	+½	5.16
CANADIAN PACIFIC 6¼ 96	10.0BN	107¾	+¼	5.47
DENMARK 6¼ 92	20.0BN	106	+¼	4.67
EIB 6¼ 92	30.0BN	100¾	+¼	4.60
EIB 4½ 91	40.0BN	99	+¼	4.83
EUROFIMA 6¼ 93	15.0BN	105¾	+¼	5.43
EUROFIMA 6¼ 92	10.0BN	101	0	6.27
F N M A 6¼ 92	50.0BN	107¼	+¼	4.51
GMAC 6¼ 90	25.0BN	103	+¼	3.99
IBM CREDIT CORP 5¼ 91	18.0BN	102¼	+¼	4.66
ITT 6¼ 92	20.0BN	104¼	-¼	5.20
MCDONALDS CORP 6½ 92	25.0BN	104¾	+¼	4.91
NEW ZEALAND 7¼ 90	15.0BN	105¼	0	4.38
NEW ZEALAND 7¼ 89	15.0BN	103¼	0	5.00
PENNEY J C 6¼ 92	20.0BN	104¼	-¼	5.33
PHILIP MORRIS 6¼ 91	20.0BN	102¾	-¼	5.14
SALLIE MAE 6¼ 92	25.0BN	106¼	+¼	4.58
TRW INC 7 94	15.0BN	107¾	0	6.46
WORLD BANK 7¼ 93	20.0BN	113	+¼	4.69
WORLD BANK 8 93	20.0BN	112¾	+¼	4.67

LUXFR STRAIGHTS	Issued	Bid price	Chg on week	Yield
COPENHAGEN TEL 8¼ 89	500	100	0	8.17
COUNCIL EUROPE 7 94	400	97¼	0	7.10
GALVALANGE 7 95	600	98	0	7.40
KLEINWORT BENSON 7 94	400	97¾	0	7.46
WORLD BANK 8 96	1.0BN	102¾	+¼	7.47

GUILDER STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.N. 9¼ 93	100	99¼	+¼	5.96
A.B.N. 7¼ 89	150	102	+¼	5.46
A.B.N. 8 89	200	100¼	0	5.99
AMRO BANK 7¼ 89	100	101¼	0	6.02
AMRO BANK 8 89	200	100¾	0	5.97
BEATRICE FOODS 8¼ 89	100	101¼	0	6.15
RABOBANK 8 89	150	100¾	0	5.90
DENMARK 8¼ 91	100	104¼	+¼	6.39
INT STAND ELEC 8¼ 89	100	100¼	+¼	6.13
OSTER KONTROLLBANK 7 90	100	101¼	+¼	6.05

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A I D C 10 93	100	99¾	+¼	10.05
AUST RESOURCES 11¾ 92	50	101¼	-¼	11.10
BK MONTREAL REALTY 9¼ 96	100	93¼	+¼	10.38
BANQUE INDOSUEZ 14 92	75	106¼	-¼	11.17
BR COL PROV 12¼ 91	100	103¼	0	11.00
BR COL PROV 13¼ 92	100	105¾	0	11.03
DENMARK 11¼ 91	100	100¼	-¼	11.17
FARM CRED CORP 12¼ 90	75	102¾	+¼	10.67
KELLOGG SALADA CANADA 9 92	50	97¼	+¼	9.97
LAVAL CITY 10¼ 96	40	97¼	0	11.19
MONTREAL TRUSTCO 8¼ 92	100	94¾	+¼	10.28
NEW BRUNSWICK 12 95	75	105¼	+¼	10.66
NOVA SCOTIA 11¼ 95	100	104¼	+¼	10.50
ROYAL TRUSTCO 10¼ 90	75	99	0	10.91

ECU STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALL NIPPON AIRWAYS 9 95	130	102¼	+¼	8.52
ANZ BANKING 10¼ 91	50	104¾	+¼	8.42
AUSTRIA 7¼ 95	125	100¼	+¼	7.16
B.F.C.E. 8¼ 93	150	101½	0	8.23
B F C E 9¼ 92	100	106	+¼	7.59
B.N.P. 8¾ 95	75	103½	0	8.18
CAISSE NAT TELECOMM 9¼ 92	75	106	+¼	7.70
CHRYSLER FIN 9 92	75	100¼	+¼	8.92
C N A 7¼ 95	120	98¼	+¼	7.65
CREDIT FONCIER 7¼ 94	330	100¼	+¼	7.58
CREDIT LYONNAIS 6¼ 92	175	96¼	+¼	7.60
CREDITANSTALT 8¼ 94	67	102¼	+¼	8.42
DENMARK 7¼ 96	250	99¼	+1	7.74
E.E.C. 11¼ 91	50	106½	0	8.28
EIB 7¼ 96	150	98¾	+¼	7.49
EIB 10¼ 94	130	108¾	0	8.41
ELEC DE FRANCE 7¼ 98	100	99¼	+¼	7.37
EURATOM 7¼ 96	100	98¼	+¼	7.61
EUROFIMA 7¼ 95	165	100	+¼	7.62
FINNISH EXPORT 7¼ 92	200	99½	+¼	7.32
GILLETTE CO 7¼ 93	35	95¼	-¼	8.62
IBM WORLD TRADE 8¼ 90	150	102¾	0	7.04
IND BK JAPAN FIN 8¼ 93	200	100¼	+¼	8.32
INTER AMER DEV 10 93	100	106¼	+¼	8.27
ITALY 9¼ 89	200	100¼	-¼	7.63
MOET-HENNESSY 9 93	50	101¾	+¼	8.51
MORGAN GTY TST 8¼ 90	100	101¼	+¼	7.79
NEW ZEALAND 9¼ 92	100	104¼	0	8.05
PARREL FINANCE 8¼ 89	50	99¾	0	8.63
REYNOLDS R.J 8¼ 91	125	99¼	-1¾	8.91
SEC PACIFIC AUST 8¼ 90	100	100¼	0	8.30
SUMITOMO FIN 9 93	75	102¼	+¼	8.42
VICTORIAN PUB AUTH 8¾ 90	75	101¼	+¼	8.11
WORLD BANK 7½ 94	150	100¼	+¼	7.36

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
BMW FINANCE 14¼ 92	100	102¼	-¼	13.48
DEUTSCHE BK FIN 12¼ 91	75	98	+¼	13.39
GMAC AUSTRALIA 14¼ 91	40	100¼	-¼	13.82
WESTPAC BANKING 12¼ 90	50	97	0	14.45

STERLING STRAIGHTS	Issued	Bid price	Chg on week	Yield
BARCLAYS JERSEY 9¼ 90	250	96	0	10.63
BRITISH OXYGEN 11¼ 91	50	100¾	+¼	11.29
DENMARK 10¼ 89	75	99¼	0	12.23
E.E.C 11¼ 94	50	102¼	+¼	10.80
ENHART CORP 11 92	35	98	+¼	12.64
HALIFAX B.S. 9¾ 93	100	95¾	+¼	10.74
INT STAND ELEC 11¼ 89	50	99½	0	13.25
INTER AMER DEV 11¼ 93	75	103¼	+¼	10.53
IRELAND 11¼ 94	50	101¾	+¼	10.86
KREDIETBK 10¼ 92	50	99¼	0	10.98
LAND SECS 9½ 07	200	89¼	+¼	10.81
LEEDS PERMANENT 9¼ 93	50	94¾	-¼	10.78
MITSUBISHI FIN OHG 11 90	50	99¼	-¼	11.05
SAINSBURY 10¾ 93	60	100¾	0	10.47
WORLD BANK 10¼ 89	100	99¼	0	12.03
WORLD BANK 11¼ 95	100	103¾	0	10.57

EQUITY WARRANTS	Expiry Date	Bid price	Chg on week	Prem
CASIO COMPUTER	06/03/89	29¼	-4¾	3.26
DOWA MINING	20/07/90	20	+2¼	24.64
FUJITA CORPN	09/09/92	22¾	+¾	18.03
FUJITSU	31/01/91	67¾	-4	3.84
GUNZE	07/05/92	28¼	-1¼	7.89
KIRIN BREWERY	23/07/92	91	-¼	51.66
MINEBEA CO	22/05/91	62¼	+8¼	-1.45
NIPPON MEAT PACKERS	17/09/92	11	0	38.09
SEKISUI HOUSE	28/10/91	42¾	-1¼	1.96
SONOIKE MFG	12/09/91	30¼	+1¼	5.41
SONY CORP	26/04/90	82¾	+¼	6.45
TOYOTA MOTOR	15/07/92	34¼	+1¼	-18.99
UNY	17/06/91	32	+¼	21.64

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
AMERICAN BANKERS 5¼ 01	70	87¼	+¼	40.38
ARGYLL GROUP 4¼ 02	60	94¼	+¼	33.76
BOND FINANCE 6 98 £	125	110¾	-1	-2.55
CANON 3 03	100	190¾	-1½	-4.46
EASTMAN KODAK 6½ 01	300	105¾	-1½	11.75
ELDERS IXL 6 97	75	118¼	+2½	-16.17
FUJITSU 3 04	180	227	-12	-2.40
GIBRALTAR SAVINGS 7¾ 06	100	42	0	124.28
GRACE (WR) 6½ 02	150	94¼	-3¼	28.08
GRAND MET 6½ 02	100	87¾	+¼	31.45
INTL PAPER 5¼ 02	200	85¼	0	15.34
LTCB 1¼ 02	200	112	-¾	3.72
MCA 5¼ 02	300	82¼	+¼	24.33
MITSUBISHI BK 1¼ 02	300	117¾	-1½	-2.41
NEWMONT MINING 7 01	100	103¾	-2½	16.80
NIPPON ELECTRIC 2⅜ 00	150	258¾	-9¼	-1.73
NISHI NIPPON 2⅜ 03	70	105¾	-3¼	-2.72
ROCKEFELLER CENTER 0 00	952	31¼	+¼	-44.03
SANWA BANK 1¼ 02	300	95	-1	1.86

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AEGON 9 92	24/09/92	12	0	8.53
ASSOCIATES CORP 10¼ 96	11/03/96	6¼	0	8.81
AVON CAPITAL 9 93	09/04/89	5	0	8.83
CHRYSLER FIN 10¼ 94	02/03/94	35	0	9.48
DEN NORSKE CREDIT 8 94	02/03/90	2	0	7.94
DEN NORSKE CREDIT 8¼ 96	08/08/89	2	0	8.20
DENMARK 12¼ 92	31/01/90	70	0	10.07
GEN ELEC CRED 9½ 92 B	17/12/92	11¼	0	9.13
GMAC 8¼ 95 B	11/02/91	18¼	0	8.35
HEINZ H.J 7½ 96	01/10/90	5	+¼	7.41
NORDIC INV BANK 7¾ 96	30/10/91	5	0	7.79
ROYAL BK CANADA	20/01/90	73¼	+2¼	9.64
SBC FINANCE 10¼ 90	11/01/90	10	0	9.27

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on OCTOBER 29

N.V. Koninklijke Nederlandsche Petroleum Maatschappij

(Royal Dutch Petroleum Company)
Established at The Hague, The Netherlands

GENERAL MEETING OF SHAREHOLDERS

to be held on Monday 28th November, 1988, at 10.30 a.m. in the "Nederlands Congresgebouw", 10 Churchillplein, The Hague, The Netherlands.

AGENDA:

1. Proposal to amend the Articles of Association and to authorize the Board of Management - *in accordance with the provisions in Article 124, Book 2 of the Netherlands Civil Code* - to make any changes considered necessary by the *Ministry of Justice*.

The above-mentioned amendment of the Articles of Association relates to the proposal announced by the Supervisory Board and the Board of Management on 15th September, 1988, for a two-for-one split of the existing 10 guilder shares, making the new par value of the shares 5 guilders.

The agenda and a copy of the proposal to amend the Articles of Association are available for inspection and may be obtained free of charge at:

— the Company's office, 30 Carel van Bylandtlaan, 2596 HR The Hague;
— the office of Shell Oil Company, Transfer Agent, One Shell Plaza, P.O. Box 53608, Houston, Texas 77052;
— the head offices of the banks stated below.

REGISTRATION:

A. Holders of share certificates to bearer may attend the meeting if their share certificates, or evidence that their certificates are held in open custody by De Nederlandsche Bank N.V., are deposited against receipt **not later than 22nd November, 1988,** at one of the institutions mentioned below, viz.:

In the Netherlands: Algemene Bank Nederland N.V.; Amsterdam-Rotterdam Bank N.V.; Bank Van der Hoop Offers N.V.; Bank Mees & Hope NV; Kas-Associatie N.V.; Pierson, Heldring & Pierson N.V.

In Austria: Creditanstalt-Bankverein, Österreichische Länderbank AG, Schoeller & Co., *all in Vienna.*

In Belgium: Société Générale de Banque S.A., Crédit Lyonnais, Kredietbank N.V., *all in Brussels.*

In the Federal Republic of Germany: Deutsche Bank AG, *Frankfurt/Main, Düsseldorf, Hamburg or Munich;* Dresdner Bank AG, *Frankfurt/Main, Düsseldorf, Hamburg, Munich or Saarbrücken;* Deutsche Bank Berlin AG, *Berlin;* Bank für Handel und Industrie AG, *Berlin;* Deutsche Bank Saar AG, *Saarbrücken.*

In France: Lazard Frères & Cie, *Paris.*

In Luxemburg: Banque Internationale à Luxembourg S.A., *Luxemburg.*

In Switzerland: Schweizerische Kreditanstalt, Schweizerische Bankgesellschaft, Bank Leu AG, *all in Zürich;* Schweizerischer Bankverein, *Basle;* Pictet & Cie, *Geneva.*

In the United Kingdom:
N.M. Rothschild & Sons Limited, *London.*

In the United States of America:
Shell Oil Company, *Houston, Texas.*

B. Holders of registered shares who are of record may attend the meeting if they make their intention to do so known to the Company in writing at the place and by the time indicated below:

- with respect to shares of The Hague or Amsterdam Registry:
  at the Company's office at The Hague, **not later than 21st November, 1988;**
- with respect to shares of New York Registry:
  at the office of Shell Oil Company, Houston, Texas, **not later than 21st November, 1988.**

C. Holders of certificates for "New York shares", which are depositary receipts issued pursuant to an agreement dated 10th September, 1918, under which The Chase Manhattan Bank, N.A. is successor depositary, may attend (but not vote at) the meeting if their certificates for "New York shares" are deposited against receipt **not later than 22nd November, 1988,** at the office of Algemene Bank Nederland N.V., C.K.E., P.O. Box 2230, 4800 CE Breda, or at the office of Shell Oil Company.

D. Usufructuaries and pledgees with voting rights: what is stated above under A and B regarding registration is correspondingly applicable to usufructuaries and pledgees of bearer shares or registered shares if they have voting rights.

POWERS OF ATTORNEY:

Those who wish to have themselves represented at the meeting by a **proxy** must not only comply with what is stated above under A, B, C and D respectively, **but must also deposit a written power of attorney not later than 22nd November, 1988,** at the Company's office, at the office of Shell Oil Company or at the above-mentioned banks.
If desired, forms which are obtainable free of charge at the Company's office, at the office of Shell Oil Company and at the banks may be used for this purpose.

The Hague, 31st October, 1988

The Supervisory Board

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Pebereau wins go-ahead to increase SocGen stake

By Paul Betts in Paris

THE FRENCH banking authorities have given Mr Georges Pebereau and his French and international partners permission to increase above 10 per cent their shareholding in Société Générale, France's fourth-largest bank.

The approval, granted rapidly by the Committee of Credit Institutions chaired by the governor of the Banque de France, has considerably strengthened Mr Pebereau's hand in his bid to acquire with his partners a dominant position in Société Générale, which ranks among the world's top 20 commercial banks.

Marceau Investissements, the investment bank created last year by Mr Pebereau, has already disclosed a 9.16 per cent stake in Société Générale. However, Mr Pebereau and his partners are believed to control about 20 per cent of the bank.

Under French banking regulations, investors seeking to build a stake of more than 10 per cent in a bank must first obtain clearance from the monetary authorities. Clearance is also necessary to go above 20 per cent, 33 per cent and 55 per cent.

The unusual speed with which Mr Pebereau was granted official clearance to increase his shareholding is widely seen in Paris as confirming the Socialist government's tacit support for a full-scale takeover bid for Société Générale, which holds a near 7 per cent stake in CGE, the telecommunications and heavy engineering group.

The political irony in the situation has not been lost on the Paris bourse, which is expecting activity in the shares to intensify when the stock market reopens on Wednesday after the All Saints holiday. Mr Pebereau ran CGE until 1986 when he was forced out of office by the then right-wing government of Mr Jacques Chirac.

Although Marceau Investissements claims that its intentions towards Société Générale are "friendly," Mr Pebereau's carefully executed raid is serving the present Socialist government's strategy of breaking up the core shareholding structures of large privatised groups set up by the former Gaullist administration.

Mr Pebereau is expected shortly to announce his plans and the names of his backers. It is understood that the latter include the state Caisse des Depots credit institution, which has a 4 per cent stake in Société Générale, Mr Gustave Leven, the veteran chairman of the Perrier mineral water group, Mr Jean-Louis Descours, the chairman of the Andre shoe group, and Mr Francois Dalle, the former chairman of the L'Oreal cosmetics group.

Eagle Star, the UK insurance group, and Kleinwort-Benson, the London merchant bank, are also said to be backing Mr Pebereau.

Despite Mr Pebereau's efforts to reassure Société Générale of his friendly intentions, Mr Marc Vienot, the bank's chairman, forcefully opposed Mr Pebereau's unwelcomed advances at the weekend. In a long newspaper interview, Mr Vienot argued that Mr Pebereau's initiative was against the interests of the bank. He claimed that the presence of a dominant shareholder risked undermining the bank's credibility and independence.

He also criticised the leading role the state Caisse des Depots had played in helping Mr Pebereau engineer his share raids. Mr Vienot said the Caisse des Depots, which has advanced FFr1bn of the FFr3bn ($495m) or so that Mr Pebereau and his backers have spent accumulating their 9.16 per cent stake, was a direct competitor of Société Générale in several key banking fields. Thus, he argued, by playing a leading role in the affair, the state credit institute had raised the question of creeping renationalisation at Société Générale.

Mr Vienot said he was not opposed to collaboration with Mr Pebereau's investment bank, but he did not see why this required large shareholding links. He also said that Mr Pebereau had assured him a few weeks ago that he was not behind the bourse raids on Société Générale. Mr Pebereau, he remarked acidly, "has a curious idea of friendship."

Despite Mr Vienot's opposition, Mr Pebereau is still hoping to negotiate "on a friendly basis" with Société Générale. He claims he has no ambitions to run the bank, but hopes to work closely with it to develop its global strategy in the run-up to 1992.

However, Mr Pebereau is clearly seeking to have a dominant say in the bank's affairs. By winning approval from the French banking authorities, he looks to have placed himself in a strong bargaining position.

SOCIETE GENERALE is to enter the British mortgage market through a joint venture with Credit Foncier de France, the state-owned supplier of subsidised mortgages, writes David Barchard.

The move is the latest in a series by the leading French banks, which have now issued nearly £1bn ($1.76bn) worth of mortgages in Britain.

Société Générale is to have a controlling stake of 51 per cent in the joint venture. It said that the new company would specialise in securitisation of mortgage-backed loans.

BoJ rethinks role for discount rate

By Stefan Wagstyl in Tokyo

THE BANK of Japan is considering turning its bureaucratically controlled official discount rate into a market-regulated interest rate, in response to the continuing liberalisation of Tokyo's financial system.

The influence of the official discount rate, once the key determinant of short-term lending rates, has been weakening as deregulated money markets have been allowed to grow.

Since the official discount rate has been mostly kept well below open market rates, it has been losing its usefulness as a tool of monetary policy.

Mr Satoshi Sumita, the Bank of Japan governor, said on Thursday that sometime in the future the official discount rate would lead money market interest rates.

Central bank officials said yesterday that the governor's comments did not mean that there was a firm plan to introduce a new policy at a fixed date.

The governor's remarks should instead be interpreted as a general observation on the likely future development of interest rate policy, they said.

Nevertheless, Mr Sumita's comments came at a timely moment in the course of financial deregulation. Earlier this year, commercial banks announced plans to stop basing their prime lending rates on the official discount rate and switch instead to a market-related formula.

This month, the central bank revealed plans to increase the range and scope of the bill discount market, an important short-term market where the bank carries out much of its intervention buying and selling.

By freeing the official discount rate, the bank could intervene more effectively in the call market, the market where borrowing periods are shortest, often overnight.

The timing of any changes could be crucial. The official discount rate, at 2.5 per cent, is so far below open market rates (4.5 per cent for certificates of deposit, for example) that a substantial increase would be needed before it could be called market-responsive. However, an increase in the rate might suggest to the world that Japan wanted to push up Japanese rates generally. This in turn could boost the yen at the expense of other currencies, especially the US dollar. The last thing the Bank of Japan would want to do would be to upset the currency markets in this way.

Aetna Life reports fall in profits

By Roderick Oram in New York

AETNA LIFE and Casualty, the largest shareholder-owned US insurer, has reported its fifth successive fall in quarterly earnings on a year-to-year basis as it continued to suffer from a modest downturn in its casualty-property business.

Net profits for the three months ended September 30 declined to $190.1m, or $1.67 a share, from $231.2m or $2.01 a year earlier. Capital gains of $45.3m made the final net $235.4m or $2.07 while a $9.7m capital gain and a tax credit of $13.1m made the final net $254m or $2.21. Revenues were $5.67bn against $5.78bn.

Operating net for the nine months was $470.6m, or $4.11 a share, against $639.1m or $5.50 a year earlier.

A capital gain of $32.4m made final net $503m or $4.40 a share in the latest year while a year-earlier capital gains of $23.9m and a tax credit of $60.1m made final net $723.1m or $6.24 a share. Revenues were $17.97bn against $16.44bn.

Canadian resource groups well ahead

By David Owen in Toronto

CANADIAN resource companies continue to report substantially improved third-quarter earnings, helped by the continued buoyancy of non-energy-related commodities markets.

Profits at Noranda, part of Edward and Peter Bronfman's far-flung stable of companies, rose by 56 per cent in the quarter and 104 per cent in the first nine months. The group's manufacturing division, spurred by the buoyant aluminium market, was responsible for the lion's share of the improvement.

In all, third-quarter income was C$139m ($116m) or 72 cents a share, compared with C$89m or 55 cents in the corresponding year-earlier period. Sales totalled C$2.2bn, versus C$1.9bn in 1987.

For the nine months ended September, 1989 earnings reached C$453m or C$2.36 a share on sales of C$6.41bn, against C$222m or C$1.35 on sales of C$5.39bn a year ago. Included in second-quarter figures was a C$36m net gain arising from the sale of an investment in Polysar Energy and Chemical.

All four Noranda divisions have improved profitability during the year to date, although the company characterised energy earnings as "well below expectations" due to weak oil and gas prices.

Meanwhile, third-quarter income at RTZ-controlled Rio Algom also advanced strongly, with copper, potash, steel manufacturing and metals distribution operations all posting improved results.

All told, earnings reached C$30m or 68 cents a share, compared with C$15.1m or 34 cents in 1987. The latest period includes an extraordinary benefit of C$10m attributable to the utilisation of prior years' tax losses. Revenues rose sharply to C$474.1m from C$352.1m.

In the last nine months, profit rose to C$90.1m or C$2.03 a share on revenues of C$1.45bn, against C$53.3m or C$1.20 on revenues of C$1.11bn a year ago.

The Toronto-based company's uranium earnings have fallen in the year to date, due mainly to the declining spot market price. Meanwhile, the East Kemptville tin mine in Nova Scotia has been running at a loss because of the weak tin market and unfavourable currency fluctuations.

Rand Mines results improve

By Jim Jones in Johannesburg

IMPROVED COAL and base metal sales during the second half have allowed Rand Mines, the South African mining company, to reverse its interim profit decline and record an increased profit for the year ended September 1988.

The company, which is the mining arm of the Barlow Rand industrial group, is stepping up its dividend to 450 cents a share from 425 cents.

The year's turnover was R957m ($239m) against R858m in the previous year and the pre-tax operating profit was R241.8m against R220.8m. In per share terms, earnings rose from R13.7 to R14.7.

Witbank Colliery, Rand Mines' colliery operating arm, has gained from better-than-expected export sales. However, it has suffered from weak domestic demand, particularly as Eskom, the state-owned electricity utility, has been closing older power stations and slowing the opening of modern coal-fired stations.

Chrome sales have been particularly buoyant.

Mediobanca share sale

By Alan Friedman in Milan

THE PRIVATISATION of Mediobanca, the Milan merchant bank, is to move into its final stage by the end of November, it was announced yesterday by Mr Francesco Cingano, chairman of the bank. The share sale may raise as much as $500m.

Mr Cingano said the three commercial banks controlled by the IRI state holding group – Banca Commerciale Italiana, Credito Italiano and Banco di Roma – would sell a total of 18 per cent of Mediobanca. Around 13 per cent of the bank's equity is to be offered on the Milan bourse, while 5 per cent will be sold to a private-sector syndicate.

If the Mediobanca stock were to be sold at yesterday's share price, an 18 per cent shareholding would have a value of L677bn ($510m).

OK Bazaars up midway

By Jim Jones in Johannesburg

OK BAZAARS, the South African retail chain, lifted sales 22 per cent in the six months ended September 1989, but says this was in due to abnormal factors rather than improving consumer spending.

The company, controlled by the South African Breweries group, warns the position is unlikely to improve in the short term. OK is particularly dependent on black customers.

Turnover rose to R1.71bn in the half year, from R1.41bn in the corresponding six months of 1987-88. The interim pre-tax profit increased to R14.5m from R11.7m. The last year's total pre-tax profit was R40.2m, made on sales of R3.12bn.

The first half's earnings rose to 55 cents a share from 44 cents and the interim dividend has been increased to 29 cents from 24 cents.

Wormald to dispose of non-fire protection assets

By Chris Sherwell in Sydney

WORMALD International, the long-troubled Australian company, is to be solely a fire-protection group under the direct control of Bell Corporation.

Bell is 66 per cent owned by New Zealand's Chase Corporation, and its prominent role was entrenched at a Wormald board meeting on Friday which elected Mr Bob Mansfield as managing director.

Mr Mansfield, a Bell executive, returns to the position he occupied when Bell tried unsuccessfully to take over the group late last year. Chase itself entered the battle for control of Wormald in June, promising to break Wormald up if its bid succeeded.

After a lengthy wrangle there was a meeting this week of Chase and Wormald's independent directors. They agreed the group should continue as a fire-protection company and sell off all unrelated assets.

One of these is its stake in the consortium led by Kockums, the Swedish shipyard, which won the A$4.2bn (US$3.5bn) contract to build six diesel-powered submarines for the Australian navy. Other non-core assets include property and stakes in an agricultural company and a gold mining company.

Mr Mansfield acknowledged yesterday that Wormald's shareholders "have had a rough trot," but insisted that the company was now on a sound footing.

UK COMPANY NEWS

Let the professionals take the plunge

Andrew Hill on the advice available for water company investors

AFTER A lull of two or three months – corresponding, cynics point out, to the French summer holidays – big investors are again turning their attention towards the UK's 29 statutory water companies, private-sector groups which work alongside the 10 water authorities.

In the last month, Trafalgar House, the UK shipping, property, and construction group, has sold its water company interests to its joint venture partner, Bouygues, one of three French water suppliers investing in the sector.

Ten days ago, Bouygues went on to sell investments in Lee Valley and North Surrey water companies to Compagnie Generale des Eaux, precipitating agreed bids for the companies. There have now been five such bids this year.

In the light of these developments and impending privatisation of the authorities, Cl-Alexanders Laing & Cruickshank has just published a circular providing the first detailed comparison of the 28 quoted companies.

Some analysts seem sceptical about the value of ALC's number-crunching. Indeed, even Mr Robert Giles, the analyst who prepared the circular, sounds a note of caution. He says the sector is changing so quickly that his calculations will probably be overtaken by events before too long.

"It's a much more sophisticated market than it used to be," he adds, pointing out that investors have begun to distinguish between the companies' voting stock, the prices for which used to move up and down in an almost undifferentiated block.

The ALC circular recommends the investor to consider companies, which:

- have stock which looks good value by reference to potential earnings or assets;
- have no restrictions on the maximum number of votes which can be exercised;
- have no significant amount of voting redeemable preference stock (although the purchase of voting stock with long-term redemption dates still seems a comparatively cheap way for large investors to influence water companies);
- are not under the control of directors, employees and local consumers (Portsmouth, for example, is 84 per cent owned by its own pension fund);

He has calculated three price/earnings ratios, all based on latest accounts for each of the companies.

The historic p/e (PE1) is an unsatisfactory guide because of the current statutory restrictions, which require all water company surpluses to be distributed to consumers in the form of lower water charges.

According to Mr Giles, two further p/e ratios (PE2 and PE3) probably provide a better indication of the companies' potential earnings, if they convert to plc status at the same time as the authorities, which could be as early as next autumn.

In calculating these ratios, Mr Giles makes two assumptions about the sort of return on turnover or shareholders' funds which a regulatory "director of water services" – to be appointed by the Government as part of the privatisation plans – might allow water companies and authorities to make.

He admits, however, that these assumptions are inevitably subjective and also warns that the companies' net asset value per share should be taken with a pinch of salt.

Net assets in water company accounts are based on historic book value, which is obviously much less than their replacement value. To give a broadly comparable example, the water authorities' total fixed assets have a historic book value of £8.5bn, but a current cost, or replacement, value estimated at some £29.5bn.

In addition there is some doubt about the quality of the fixed assets, which include unsaleable pumping stations, and tracts of land in green belt areas. In some cases, planning permission has already been sought and land sold, but theories about the actual value of the companies' and authorities' assets remain largely speculative.

So which companies look like the best investments in the long-ignored sector?

The ALC calculations point to West Kent, Rickmansworth and Sutton. Bouygues has retained stakes in both West Kent and Rickmansworth through its subsidiary, SAUR UK, adding bid prospects to other advantages, and Sutton is at a large – though rapidly narrowing – discount to NAV.

Based on the outskirts of London, these companies also seem cheap on the grounds of total market capitalisation per head of population served or profit per customer, a means of assessing companies' worth used by advisers to some of the French predators.

On the other hand, Bournemouth and Colne Valley appear expensive, although the latter, which boasts two large French investors, is another potential takeover target.

In general, however, observers are recommending caution when dealing in a sector of the stock market which is still little understood, and where the risks involved in speculative investment are comparatively high. With the water privatisation bill yet to pass through Parliament, the water companies – which once provided a safe yield for widows and orphans – are best left to professionals for the time being.

PE RATIOS AND NET ASSET VALUES

Name	Latest price(p)	NAV/share(p)	PE1	PE2	PE3	Vote limit	Voting pref
Bristol	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Bournemouth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Cambridge	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Chester	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Colne Valley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
East Anglian	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Eastbourne	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
East Surrey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
East Worcs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Essex	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Folkestone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Hartlepool	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Lee Valley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Mid-Kent	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Mid-Southern	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Mid-Sussex	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Newcastle	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Nth Surrey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Portsmouth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Rickmansworth	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Sth Staffs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Sutton	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Sunderland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Tendring H.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
West Hants	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
West Kent	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Wrexham	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
York	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Average	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		

Latest price of ordinary stock as at 27/10/88 expressed in pence per stock unit. [illegible]

Source: Cl-Alexanders Laing & Cruickshank

H Clarkson advances 66%

An advance of 66 per cent in pre-tax profit for the first half of 1988 is announced by Horace Clarkson, the shipbroking, shipowning, and insurance broking group.

And Mr Carron Greig, chairman, expresses confidence that the year will show a marked improvement over 1987, when profit came to £3.46m. In view of that, the interim dividend is raised from 2p to 2.25p.

In the period turnover rose to £16.28m (£12.86m) and the profit to £3.05m (£1.84m). Earnings were 9.5p (5.9p).

Mr Greig said shipbroking had a particularly good half notwithstanding a 12 per cent fall in the US/dollar sterling rate, and the promise of a positive contribution from shipowning had been fulfilled. Insurance broking was profitable.

FT Share Service

The following security was added to the Share Information Service in Saturday's edition:

Noble Raredon (Section: Leisure).

COMPANY NEWS IN BRIEF

BLACKETT HUTTON Holdings: Taxable losses £8,000 (£75,000) on turnover of £2.27m (£2.08m) for six months ended June 30. Losses per share 1.9p (2.1p earnings).

BRITISH ASSETS Trust: Net asset value 84.8p (107.5p) at September 30. Final dividend 0.7p (0.6p) making 2.7p (2.25p). Net revenue for year £11.75m (£9.64m) for earnings of 3.01p (2.46p) per share.

CHANNEL TUNNEL Investments (investment company): Gross income £12,516 (£3,685) and pre-tax loss £5,431 (£8,006) for the half year to end-June. Loss per 5p share 0.57p (0.85p).

CHLORIDE GROUP is buying Ruby Cliff, a plastics moulding company, for an aggregate consideration of £2.63m, to be satisfied by £630,000 in cash and a vendor placing of 3.58m shares.

CLAYTON, SON & Co (Holdings): Pre-tax profits £107,090 (£117,409) and turnover £8.22m (£8.12m) for six months ended June 30. Interim dividend 2.2p (2p) and earnings per ordinary and founder share 4.84p (2.78p).

CRAIG & ROSE: Pre-tax profits £36,000 (£34,000) on turnover of £2.49m (£2.33m) for half year to June 30. Interim dividend 2p (same) and earnings per £1 stock unit 6.7p (6.2p).

GODFREY DAVIS has received valid acceptances in respect of 427,255 (97.1 per cent) of Falcon Industries preference shares. The offer has become wholly conditional and will remain open until further notice.

EL ORO MINING & Exploration Company (investment dealer): Taxable profit in six months to June 30 1988 down at £891,000 (£945,000). Earnings per 10p share were 10.1p (13.94p). Assets at end of period were £22.17m (£23.78m).

EMAP is buying 40.67 per cent of the voting capital and 38 per cent of the non-voting in T R Beckett, newspaper publisher, for £3.4m. In 1987 Beckett achieved pre-tax profits of £773,000 on turnover of £7.13m. At the end of the period net assets were £3.36m.

EXPEDIER LEISURE: Pre-tax profits £199,000 (£104,000) and turnover £3.9m (£4.04m) for the six months to June 30. Earnings 2.4p (1.4p) basic and 2.6p (1.7p) fully diluted.

EXPLORATION: Pre-tax profits £808,000 (£1.22m) for six months ended June 30. Profit on investments fell to £311,000 (£650,000). Earnings per stock unit 4.4p (6.73p).

FISHERMAN'S PETROLEUM Company: Pre-tax losses £56,873 (£2,703) for six months to June 30 after expenses of £40,283 for share issue. Losses per share 8.5p (0.95p) after tax of £210 (£261).

GOVETT STRATEGIC Investment Trust: Net asset value 233.7p (£24.6p) at end-September 1988. Final dividend 2.9p (2.7p) making 4.3p (4p). Earnings per 10p share 5.89p (4.08p).

G.R.HOLDINGS has proposed that each of its 25p ordinary shares be subdivided into five shares of 5p.

HEITON general meeting told that turnover in Ireland for the first five months of the financial year was 9 per cent higher than the corresponding period last year.

HIGH GOSFORTH Park incurred loss £14,716 in half year ended June 30 1988 (profit £4,491) from turnover £382,725 (£334,775). Loss per share 16.2p (earnings 3.6p). Reversal principally due to absence of profit on sale of investment (£25,000), abandonment of March race meeting, professional expenses in connection with VAT assessments, and substantial expenditure on racecourse (£30,000 on grandstand repairs).

INVESTORS CAPITAL Trust: Net asset value 387.51p (488.44p) at end-September 1988. Final dividend of 4p makes 14.8p (12.7p) for year. Net revenue £9.51m (£8.57m) for earnings of 15.28p (13.75p) per share.

MACFARLANE GROUP (Clansman) has acquired Ayrshire Labels for £1.76m in cash and shares. For the 13 months to April 30 its pre-tax profits were £192,000 and net assets stood at £645,000.

MEYER INTERNATIONAL has bought George Tufts (Watton), Norfolk timber and builders' merchant, for an undisclosed sum.

PRUDENTIAL PROPERTY Services has increased the number of its estate agency outlets to 793 with the acquisition of EJ Brooks & Son, with its branches in Oxford and Summertown.

WILLS GROUP is at an advanced stage in its negotiations for the sale of FJ Hawkes, its Australasian financial services division. Pending the conclusion of these negotiations, the interim results for the first half of 1988 are being delayed.

This notice is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to the public to subscribe for or purchase any securities.

WILLIAMS HOLDINGS PLC

(Incorporated in England, Registered No. 585779)

Issue of up to 318,458,627 new 8.0p cumulative convertible redeemable preference shares of 10p each in connection with the Recommended Offers to acquire the whole of the share capital of Pilgrim House Group plc

Particulars of the new 8.0p cumulative convertible redeemable preference shares of 10p each will be available in the Extel statistical service from the date on which dealings are expected to begin and copies of the Listing Particulars may be obtained during usual business hours up to and including 2nd November, 1988, for collection only, from the Company Announcements Office of The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD and up to and including 14th November, 1988 from:

Williams Holdings PLC, Pentagon House, Sir Frank Whittle Road, Derby DE2 4EE

J. Henry Schroder Wagg & Co. Limited, 120 Cheapside, London EC2V 6DS

de Zoete & Bevan Limited, 2 Swan Lane, Ebbgate House, London EC4R 3TB

Pannell Kerr Forster, 18 Park Place, Cardiff CF1 3PD

31st October, 1988

Helaba Frankfurt

Hessische Landesbank –Girozentrale– through its London Branch (the "Bank")

NOTICE

to the holders of the A$30,000,000 13¾ per cent. Notes due 1991 of the Bank (the "Noteholders")

NOTICE IS HEREBY GIVEN to the Noteholders that, at the adjourned Meeting of the Noteholders convened by the Notice published in the Financial Times and the Luxemburger Wort, on 14th October, 1988 and held on 26th October, 1988, the Extraordinary Resolution set out in such Notice was duly passed.

Issued by Hessische Landesbank –Girozentrale– through its London Branch

Dated 31st October, 1988.

Wells Fargo & Company

U.S. $150,000,000

Floating Rate Subordinated Notes due 1992

In accordance with the provisions of the Notes, notice is hereby given that for the Interest period 31st October, 1988 to 30th November, 1988 the Notes will carry an Interest Rate of 8·475% per annum.

Interest payable on the relevant interest payment date 30th November, 1988 will amount to US$70·63 per US$10,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

Ente Nazionale per l'Energia Elettrica

U.S.$300,000,000

Floating Rate Notes Due 2005

Unconditionally guaranteed as to payment of principal and interest by

The Republic of Italy

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest has been fixed at 8.62625% for the Interest Determination Period 31st October, 1988 to 30th November, 1988. Interest accrued for this Determination Period and payable 30th November, 1988 will amount to U.S.$71.89 per U.S.$10,000 Note and U.S.$1,797.14 per U.S.$250,000 Note. Total interest payable value 30th November, 1988 will amount to U.S.$428.38 per U.S.$10,000 Note and U.S.$10,709.25 per U.S.$250,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

THE KANSAI ELECTRIC POWER COMPANY, INCORPORATED

Japanese Yen 40,000,000,000

Floating Rate Notes 1992

For the period 31st October, 1988 to 1st May, 1989

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 5.15 per cent per annum and that the interest payable on the relative interest payment date, 1st May, 1989 against Coupon No 3 will be ¥256,556 per ¥10,000,000 Note.

The Industrial Bank of Japan, Limited Agent Bank

MITSUI FINANCE ASIA LIMITED

(Incorporated in the Cayman Islands)

US$150,000,000

Guaranteed Floating Rate Notes 1997

In accordance with the provisions of the Notes, notice is hereby given that for the three month period, 28th October, 1988 to but excluding 30th January, 1989 the Notes will carry an Interest Rate of 8 15/16% per annum. Coupon will be US$233.37 on the Notes of US$10,000.

Mitsui Finance Trust International Limited Agent Bank

Notice to Noteholders

Federal Business Development Bank

(An Agent Of Her Majesty In Right Of Canada)

Can $75,000,000

9¼% Notes Due November 28, 1990

In accordance with the terms and conditions of the notes, notice is hereby given that the interest rate for the period from November 28, 1988 to November 28, 1989 and annually thereafter until maturity is 9¼% p.a. The interest payable on the relevant interest payment dates November 28, 1989 and November 28, 1990 against Coupon number 3 and Coupon number 4 respectively will be Can $98.75 per Can $1,000 note and Can $987.50 per Can $10,000 note.

Bank of Montreal, London Fiscal Agent

October 31, 1988.

U.S. $50,000,000

Banco Latino Americano de Exportaciones, S.A.

Floating Rate Notes due 1990

In accordance with the provisions of the Notes, notice is hereby given, that for the six months interest Period from October 31, 1988 to April 28, 1989 the Notes will carry an Interest Rate of 8 9/16% per annum. The amount payable on April 28, 1989 against Coupon No. 8 will be U.S. $481.88 for Bearer Notes of U.S. $10,000 principal amount and U.S. $4816.84 for Bearer Notes of U.S. $100,000 principal amount. U.S. $481.88 will be payable on each U.S. $10,000 principal amount of Registered Notes.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

October 31, 1988 CHASE

CORPORATE SECURITY

The Financial Times proposes to publish this survey on:

22nd November 1988

For a full editorial synopsis and advertisement details, please contact:

Mark James on 01-248 8000 ext 3565

or write to him at:

Bracken House, 10 Cannon Street, London EC4P 4BY

FINANCIAL TIMES

US$400,000,000 GUARANTEED FLOATING RATE SUBORDINATED CAPITAL NOTES DUE OCTOBER 1996

CITICORP BANKING CORPORATION

(Incorporated in the State of Delaware)

Unconditionally guaranteed on a subordinated basis by

CITICORP

Notice is hereby given that the Rate of Interest has been fixed at 8.8125% and that the interest payable on the relevant Interest Payment Date January 31, 1989 against Coupon No. 17 in respect of US$10,000 nominal of the Notes will be US$225.21.

October 31, 1988, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

US$250,000,000 GUARANTEED FLOATING RATE SUBORDINATED CAPITAL NOTES DUE JANUARY 1997

CITICORP BANKING CORPORATION

(Incorporated in the State of Delaware)

Unconditionally guaranteed on a subordinated basis by

CITICORP

Notice is hereby given that the Rate of Interest has been fixed at 8.8125% and that the interest payable on the relevant Interest Payment Date January 31, 1989 against Coupon No. 16 in respect of US$10,000 nominal of the Notes will be US$225.21.

October 31, 1988, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

U.S. $500,000,000

CITICORP

Subordinated Floating Rate Notes Due January 30, 1998

Notice is hereby given that the Rate of Interest has been fixed at 8.45% and that the interest payable on the relevant Interest Payment Date November 30, 1988 against Coupon No. 34 in respect of US$10,000 nominal of the Notes will be US$70.42.

October 31, 1988, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

Swire Pacific Limited

Interim dividends for 1988

Scrip Dividends

By the closing date of 24th October 1988 for the lodgment of election forms in Hong Kong and in London, elections for cash dividends had been received from the holders of 742,060,234 'A' shares and 2,868,204,272 'B' shares. Accordingly, the following new shares have been allotted to shareholders in respect of the interim dividends for 1988 to be satisfied by the issue of scrip:

	Number of new shares issued	Proportion of existing shares in issue
'A' shares	2,791,874	0.2884%
'B' shares	5,833,610	0.1896%

Certificates for the new 'A' shares and 'B' shares, together with dividend warrants for the minimum cash dividends of 1.0¢ per 'A' share and 0.2¢ per 'B' share and for the other cash dividends for which elections were received, are being despatched to shareholders today. The Stock Exchange of Hong Kong Limited has granted listings for and permission to deal in the new shares.

By order of the Board JOHN SWIRE & SONS (H.K.) LIMITED Secretaries

Hong Kong 31st October, 1988

Swire Pacific Limited The Swire Group Swire House, Hong Kong.

Bank of Montreal

(A Canadian Chartered Bank)

U.S.$250,000,000

Floating Rate Debentures, Series 9, due 1996

(Subordinated to deposits and other liabilities)

Notice is hereby given that the Rate of Interest for the three month period 31st October, 1988 to 31st January, 1989 has been fixed at 8 11/16 per cent. The amount payable on 31st January, 1989 will be U.S.$225.23 against Coupon No. 19.

Morgan Guaranty Trust Company of New York London

ABITIBI-PRICE

ABITIBI-PRICE INC.

NOTICE OF REDEMPTION

15¾% Debentures Series I Due December 15, 1991

Abitibi-Price Inc., pursuant to the provisions of the Trust Indenture dated as of September 15, 1965 between Abitibi-Price Inc. and Montreal Trust Company, as amended and supplemented, hereby gives notice of its intention to redeem on December 16, 1988 all of its outstanding 15¾% Debentures Series I ("Series I debentures") due December 15, 1991 at 101.0% of the principal amount thereof together with interest accrued and unpaid to December 16, 1988 including interest in the amount of U.S.$0.44 per U.S.$1,000 on the principal amount thereof payable in respect of December 15, 1988 (the "redemption price").

The redemption price for all Series I debentures called for redemption will be paid on and after December 16, 1988 upon the presentation and surrender to one of the Paying Agents listed below of the certificates representing such debentures, together with any unmatured coupons.

From and after the redemption date, such debentures shall cease to be entitled to interest and the holders shall cease to be entitled to exercise any rights in respect thereof except for the right to receive the redemption price on such debentures upon the presentation and surrender of certificates representing such debentures and the unmatured coupons.

By Order of the Board M.D. Thompson Vice President, General Counsel and Secretary

Toronto, Ontario October 31, 1988

Paying Agents at which Series I debentures may be presented for payment are:

Orion Royal Bank Limited, 71 Queen Victoria Street, London, England EC4V 4DE

The Royal Bank of Canada, Main Branch, Royal Bank Plaza, Toronto, Ontario M5J 2J5

The Royal Bank and Trust Company, 65 William Street, New York, New York 10005

Morgan Guaranty Trust Company of New York, Avenue des Arts 35, B-1040 Brussels

Citibank Luxembourg S.A., 16 Avenue Marie Therese, Luxembourg

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UK COMPANY NEWS

GA wants early publication of NZI bank losses

By Richard Waters

GENERAL ACCIDENT, the Perthshire-based insurance company, plans to bring forward the announcement of half year figures for its Australasian financial services subsidiary NZI Corporation to next week, following fears over the scale of losses in NZI's banking subsidiary.

GA said yesterday that it had known about the need for further provisions to cover losses at NZI Bank "for some time". However, it made no comment on this when increasing its stake in NZI to a controlling 51 per cent in June.

The company declined yesterday to comment on the scale of the likely provisions, or whether the position had deteriorated recently. Fears have been heightened by the resignation on Friday of Mr Roger Clarke, chief executive of NZI Bank. GA said it did not request Mr Clarke's departure, but was "kept informed about it".

NZI's management announced a review of the bank's loan book last year, leading to write-offs of NZ$97m (£40m) in the year to March 31 1988. Announcing these figures in June, the group gave no hint that further provisions would be needed, saying only that "all anticipated losses have been written off" and that its general provisions against future losses had been increased to NZ$44m.

NZI said on Friday that its results for the year to September 30 would be announced on November 21. However, GA said that it was trying to bring this forward to November 9, to coincide with the UK insurance group's own third quarter results.

Such a change would require almost superhuman efforts: with only a week and a half to go, NZI staff and auditors have still not confirmed the provisions needed to meet expected losses in NZI Bank's loan book.

Losses at the bank following the stock market crash contributed to a disappointing year for NZI, one of New Zealand's largest companies and the chosen springboard for GA's move into the Pacific Basin. The fall in equity prices knocked $142m off the group's investments, pulling its net earnings down to $58m from $162m the previous year.

Gold Fields planning gradual SA withdrawal

By Vanessa Houlder

CONSOLIDATED Gold Fields, the UK mining and industrial group that last week won a temporary reprieve from Minorco's $2.9bn (£1.66bn) takeover bid, yesterday said that it was contemplating a gradual withdrawal from South Africa for political and economic reasons.

Further gradual disposals of its 38 per cent interest in Gold Fields of South Africa (GFSA) were likely, it said. However, it stressed that no firm plans had been laid and no time scale had been fixed for the withdrawal.

A mechanism for a partial withdrawal has been in place since July 1987 when Gold Fields sold a 10 per cent interest in GFSA to Rembrandt, the South African tobacco and liquor group. Under this deal, Rembrandt was given first refusal over a further 30 per cent stake in GFSA.

Since July 1987 the price of GFSA's shares has dropped from the £16 per share paid by Rembrandt to its current market price of £7.94. Gold Fields said that the value of GFSA's shares would have a major bearing on the decision about withdrawal from South Africa.

Minorco, the South-African controlled investment company, had planned to sell all Gold Fields' South African interests if its bid went ahead. Its bid lapsed on Tuesday when it was referred to the Monopolies and Mergers Commission.

Electrifying the market this time round

Philip Coggan looks at Fairey's history as it prepares for a return to public life

MANAGEMENT buy-outs are almost two a penny nowadays but not many can claim a role in sinking the Bismarck.

However, Fairey, which is set to float next month on the main market valued at between £50m and £60m, has achieved this distinction in the course of its long and complex history. Founded by Sir Richard Fairey in 1915, the company built a number of well-known planes, culminating in the Swordfish, which helped to sink the German navy's most famous battleship.

Fairey stopped making aeroplanes more than a quarter of a century ago, although it still has an aerospace division, manufacturing hydraulic controls and components for a range of civil and military aircraft.

The modern Fairey is a diversified, specialist engineering group making products ranging from the fuel element cans used in nuclear power stations to the filters used for high performance video tapes.

It has three divisions: aerospace; electronics and electrical power, and filtration and specialised ceramics. Serving as they do a wide-range of customers, Fairey's management believes that the business spread gives the company protection against an economic downturn.

The last decade has certainly been a testing time. Ten years ago, Fairey was forced into receivership when losses mounted at the group's Belgium subsidiary. The UK operating companies were healthy, and under the aegis of the National Enterprise Board it made pre-tax profits of £5.5m in 1978.

The election of Mrs Thatcher meant that Fairey was one of the earliest candidates for privatisation. Accordingly in 1980 Fairey was acquired for £22m by Pearson, the diversified group which owns the Financial Times.

By that time, the early 1980s recession was beginning to bite, and far from making the £4m profit forecast at the time of the deal, Fairey incurred a £2.8m loss in 1980.

Pearson reacted by combining its existing engineering interests with Fairey and bringing in Mr Derek Kingsbury, formerly the deputy chief executive of Dowty, as Fairey's new chief executive.

Mr Kingsbury diversified the group from its traditional dependence on the military,

Derek Kingsbury: able to make acquisitions for paper

and sold off one of the company's core businesses, Fairey Engineering, the military bridge manufacturer, to Williams Holdings.

Then, as part of Pearson's strategy of concentrating on businesses "where we see long-term competitive advantage", the rest of Fairey was sold via a management buy-out on New Year's Eve 1986.

The £51m deal was the first MBO to be backed by Candover Investments, the venture capital group. The Fairey management beat off 12 outside bidders with a package which included ordinary shares, convertibles, preference shares and loan stock.

The original 14 managers put up £250,000 in return for 25 per cent of the equity; a proportion which will fall to 13-15 per cent after the flotation.

Mr Kingsbury quickly rationalised the group. Davis Derby, the mining equipment company, was sold - "it was too cyclical" he said - to Senior Engineering. Meanwhile the oil price fall had hit the group's division which manufactures high voltage porcelain insulators.

Middle Eastern orders fell away and the Doulton Insulators sight at Tamworth had to be reduced by two-thirds. The rationalisation cost £2.3m but the business is now profitable.

However, there are plenty of areas which have been able to be expanded. Perhaps Fairey's most exciting product is an unassuming electronic counter, manufactured by Red Lion Controls in the US.

It may look just like an alarm clock but the insides are far more sophisticated and allow the customer to monitor a wide-range of parameters - time, rate, size and so on. It therefore can be used in almost any production process, which means a large number of potential customers.

Thanks to Red Lion, the electronics and electrical power division contributed around 46 to 50 per cent of last year's £7.8m operating profits, with the balance split between the other two divisions. Operating profits of £9m are likely this year.

So why float now? Mr Kingsbury, who is now chairman, says that "we are very comfortable being private" and there is no pressure from his institutional backers to float - few are likely to sell their shares in the offer.

The £25m the offer is likely to raise will mainly be used to pay off the group's borrowings. But the main purpose of the issue will be to give the company an ability to make acquisitions with its paper.

With the float likely to come before British Steel's impact day, the offer is not expected to be too aggressively priced. Fairey is anxious to dispel memories of the NEB phase of its history and return to the market in style.

Erskine back on US trail

By Vanessa Houlder

ERSKINE HOUSE Group, the acquisitive office equipment distributor, has taken a further step into the US fax and photocopier market. It has agreed to buy Keystone Business Controls for $5.37m (£3.04m) and Systems Devices & Supplies for $6.7m (£3.79m) in cash.

The two acquisitions, which extend the company's presence on the East Coast and provide a foothold in Florida, are intended to bring the company closer to its goal of complete geographic coverage of the US market.

The new purchases mark a return to the company's established acquisition strategy from which it departed in September when it bought Quest Group, a quoted computer products supplier. The deals are the latest in a rash of US acquisitions that started in September 1986 with the purchase of Zeno Systems, a fax and copier company based in Texas, Oklahoma, Colorado and Georgia. It has since bought businesses in Texas, Los Angeles, and Colorado.

Keystone is a Manhattan-based distributor and servicer of Sharp photocopiers and fax machines. In 1987, it made pre-tax profits of $392,000 on turnover of $5.9m, with net assets of $496,000.

SDS, which is based in Miami with branches in Fort Lauderdale and Orlando, sells and services copier and fax machines. It made pre-tax profits of $179,000 on turnover of $13.8m in the year to April 30, at which time it had net assets of $1.7m.

For both companies, there may be an additional payment, dependent on profits. In the case of SDS the maximum is $10.7m.

NW Exploration rejecting Oliver

North West Exploration, the Belfast-based exploration concern which is facing an unwelcome £7.97m offer from Dublin-based fellow explorer Oliver Resources, has written to its shareholders urging them to say "no to Oliver".

Both companies are quoted under the Stock Exchange's Rule 535 (3) but North West plans to move to the USM if it fights off the bid.

Oliver's seven-for-two share offer values North West shares at 70p.

In his letter, the Duke of Abercorn, chairman of North West's, claimed that despite the expenditure of millions of pounds on offshore oil and gas exploration in Ireland and Abu Dhabi, Oliver had never had a single commercial find, and the probability factors being assigned by its consultants in relation to Oliver's properties indicated their high risk nature. By contrast, North West has discovered significant gypsum deposits.

Sharp fall at Feedex

By Nigel Clark

ADVERSE CONDITIONS in the pig market plus the irregular pattern of property development profits left Feedex Agricultural Services interim pre-tax profits much reduced at £127,000, against £1.38m last time.

Turnover for the six months to the end of June 1988 was down from £72.71m to £64.61m. After tax of £46,000 (£504,000) earnings per 10p share were 0.13p (1.47p) and the interim dividend is being held at 0.5p.

During the period, pig production suffered a loss of £239,000 and feed, mainly to the pig market, incurred a loss of £246,000. The property interests saw a downturn of £929,000 into losses of £196,000.

The results were helped however by the grain trading side which Mr Derek Sawyer, chairman, said continued to perform well with profits increasing from £430,000 to £712,000.

In the second half the company was looking to regain some of the profit fall with property profits coming through as transactions are completed and an improvement being seen in the pig market. Mr Sawyer said that an increase in pig prices was being seen and that the feed side was now trading profitably.

There should be a further benefit from the sale of the loss-making engineering interests for £750,000 towards the end of the first half. The resultant loss and winding-down costs were taken as an extraordinary item of £1.33m.

Lendu boosted by exceptionals

Gains on the sale of fixed assets and on exchange helped boost the pre-tax profit of Lendu Holdings from £27,000 to £717,000 in the first half of 1988.

From a rubber crop of 87,400 kg (100,860) Lendu made an operating loss of £88,600 (£15,000). But its usual investment income and interest receivable kept it in profit, and there was £503,000 profit on the sale of fixed assets and £294,000 gain on exchange. Earnings were 4.63p (0.18p) before extraordinary credit £565,000).

Lendu has expanded its sheep and cereal interests in Western Australia with the purchase of two adjacent properties for A$2.8m (£1.22m).

Benlox £480,000 in red

FOR THE first half of 1988 Benlox Holdings incurred a loss of £480,000 and is cutting its interim dividend to 0.1p.

Mr Simon Bertill, chairman and chief executive, said the results reflected the substantial changes made since the comparable period of 1987, when the group turned in a profit of £693,000 and paid a dividend of 0.75p.

Principal events were the acquisition of Nolton, the building, property and services company, and the failed bid for the Storehouse high street group which led to writing off £1.18m for the diminution in the value of the holding against the 1987 full results.

But Personnel Selection Associates, acquired with Nolton, was sold.

Benlox is being transformed from a small investment dealing and civil engineering business into a more broadly based construction and industrial group.

Turnover came to £21.3m (£9m) and operating profit to £160,000 (£378,000) after exceptional charges of £190,000 for board changes. Interest swung from £21,000 received to £848,000 charged mainly resulting from borrowings incurred with the Storehouse bid.

Loss per share worked through at 1p (earnings 2p) but there was an extraordinary gain of £1.67m from the sale of PSA.

FIH up 15% midway

DESPITE A temporary decrease from publishing, pre-tax profit of Ferguson Industrial Holdings rose 15 per cent, from £5.06m to £5.84m, in the half year ended August 31 1988.

Mr Denis Vernon, chairman, said there was an immediate rise in costs following the drive for improved quality in colour printing in the town guides, and that would not be recovered until the next round of publications in 1989.

Printing, packaging and plastics all improved following better purchasing, tighter financial controls, and premium pricing where warranted.

Turnover showed little change at £63.97m (£64.25m) as last year included £4.6m attributable to the disposed British Trimmings. Trading profit came to £6.89m (£5.94m) with printing accounting for £2.29m (£2.1m), packaging £3.3m (£2.66m), plastics £1.06m (£620,000), publishing £89,000 (£152,000), and others £147,000 (£170,000).

Earnings rose to 11.1p (9.8p) and the interim dividend is lifted to 3.75p (3.4p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Anglo American Coal, Bertram Hldgs., Eastern Produce, Curtam (D.G.), Harding Group, Rowe Evans Inv., Storaguard, TR Ind. & Gen. Tst., Tilling (T.), Vivat Hldgs.

FUTURE DATES

Interims-	
Beecham Group	Nov. 16
British Borneo	Nov. 3
Capital Gearing Tst.	Nov 8
EMAP	Nov 21
Gieves Group	Nov 2
Great Portland Est.	Nov 15
Healthcare Services	Nov 8
National Telecom	Nov 8
Parkland Textiles	Nov. 21
600 Group	Nov. 17
Stratton Inv. Tst.	Nov. 14
Finals-	
Christy Hunt	Nov. 10

GRANVILLE SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross Div (p)	Yield %	P/E
7920	Ass. Brit. Ind. Ord.	295	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Ass. Brit. Ind. CULS	233	[illegible]	[illegible]	[illegible]	[illegible]
1806	Applegate and Rhodes	48	[illegible]	[illegible]	[illegible]	[illegible]
2898	BBB Design Group (USM)	35	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Bardon Hill Group	171	[illegible]	[illegible]	[illegible]	[illegible]
19064	Barton Group Conv. Pref.	115	[illegible]	[illegible]	[illegible]	[illegible]
7337	Bray Technologies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Breithill Conv Pref	138	[illegible]	[illegible]	[illegible]	[illegible]
1879	CCL Group Ordinary	127	[illegible]	[illegible]	[illegible]	[illegible]
2838	CCL Group 11% Conv Pref	144	[illegible]	[illegible]	[illegible]	[illegible]
2696	Carlo Plc (SE)	153xd	[illegible]	[illegible]	[illegible]	[illegible]
784	Carlo 7.5% Pref (SE)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4218	George Blair	112	[illegible]	[illegible]	[illegible]	[illegible]
5141	Isis Group	113	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Jackson Group (SE)	115	[illegible]	[illegible]	[illegible]	[illegible]
11697	Jackson Group (SE)	212	[illegible]	[illegible]	[illegible]	[illegible]
24173	Multihouse N.V. (AmstSE)	310	[illegible]	[illegible]	[illegible]	[illegible]
1149	Robert Jenkins	127xd	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Scruttons	405xd	[illegible]	[illegible]	[illegible]	[illegible]
6262	Torday & Carlisle	277	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Torday & Carlisle CNV PRF	180	[illegible]	[illegible]	[illegible]	[illegible]
3873	Trevian Holdings (USM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Unilock Europe Conv Pref	108	[illegible]	[illegible]	[illegible]	[illegible]
6237	W.S. Yeates	313	[illegible]	[illegible]	[illegible]	[illegible]

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The Stock Exchange. Other securities listed above are dealt in subject to the rules of TSA.

These Securities are dealt in strictly on a matched bargain basis. Neither Granville & Co nor Granville Davies Ltd are market makers in these securities.

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FT-30	FTSE 100	WALL STREET
Oct. 1500/1509 -4	Oct. 1855/1865 +1	Nov. 2142/2154 +8
Dec. 1508/1517 -1	Dec. 1865/1875 +7	Dec. 2148/2160 +9

Prices taken at 5pm and change is from previous close at 9pm.

SCOTLAND

The Financial Times proposes to publish this survey on:

Friday December 9th 1988

For a full editorial synopsis and advertisement details, please contact:

Kenneth Swan 031-220-1199

or write to him at:

37, George Street, Edinburgh, EH2 2HN

Financial Highlights

	Year Ended 30.6.88 £'000s	Year Ended 30.6.87 £'000s	% Increase
Group Turnover	38,715	27,756	39%
Profit before tax	5,037	3,077	64%

FINANCIAL TIMES STOCK INDICES

	Oct. 28	Oct. 27	Oct. 26	Oct. 25	Oct. 24	Oct. 21	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.31	89.27	88.74	88.76	88.78	89.06	91.43	86.28	127.4	49.18
Fixed Interest	97.59	97.52	97.46	97.49	97.70	97.75	98.67	94.14	105.4	50.53
Ordinary	1508.9	1502.6	1505.2	1500.9	1499.4	1509.3	1516.7	1349.0	1926.2	49.4
Gold Mines	166.6	167.0	166.5	166.5	167.1	170.2	[illegible]	162.7	734.7	43.5
FT-Act All Share	967.24	963.84	963.02	962.29	962.96	968.02	978.58	870.19	1238.57	61.92
FT-SE 100	1858.4	1852.1	1850.7	1847.8	1848.4	1859.3	1879.3	1694.5	2443.4	986.9

DIARY DATES

FINANCIAL

TODAY

COMPANY MEETINGS–

[illegible]

DIVIDEND AND INTEREST PAYMENTS–

[illegible]

PARLIAMENTARY

Today

Commons: Rate Support Grants Bill, second reading.

Foreign Marriage (Amendment Bill), remaining stages.

Motion on Penalty Points Alteration Order.

Lords: Housing (Scotland) Bill, consideration of Commons amendments.

Firearms Bill, third reading.

Tomorrow

Commons: Health and Medicines Bill, consideration of Lords amendments.

Motion on EC documents on air pollution from motor vehicles.

Lords: School Boards (Scotland) Bill, report.

Motion calling on the Government to revoke the Income Support General Amendment (No. 4) Regulations 1988.

Question on Government consideration on jobs in Northern Ireland following the decision to privatise Short Bros.

Select committees: Employment: subject, Legionnaires Disease in the working environment. Witnesses: British Aerospace officials: Doctor D. Constable, Bolton District Health Authority. (Room 20, 11.15 a.m.)

Committee on Private Bills: Associated British Ports (No. 2) North Killingholme Cargo Terminal. (Room 6, 10.30 a.m.)

Wednesday

Commons: Timetable motion on and consideration of Lords amendments to the Firearms (Amendment) Bill.

Debate on government motion on broadcasting and terrorism.

Lords: Copyright, Designs and Patents Bill, consideration of Commons amendments.

Select committees: Agriculture: subject, land use and forestry. Witnesses: Officials from MAFF, Welsh Office, Scottish Office and Northern Ireland Office. (Room 20, 10.30 a.m.)

Environment: subject, toxic waste. Witness: Inspectorate of Pollution. (Room 21, 10.30 a.m.)

Trade and Industry: subject, trade with Eastern Europe. Witnesses: Lord Jellicoe, chairman of the East European Trade Council, and Mr Alan Clark, Minister for Trade. (Room 15, 10.15 a.m.)

Defence: subject, future of the Brigade of Gurkhas. Witness: Ministry of Defence. (Room 16, 10.45 a.m.)

Energy: subject, the UK independent oil sector. Witnesses: Mr Peter Morrison, Energy Minister of State, and officials. (Room 8, 11 a.m.)

Trade and Industry: subject, British Aerospace/Rover. Witnesses: Professor Roland Smith, chairman of British Aerospace and Mr Graham Day, chairman of Rover Group. (Room 15, 3.45 p.m.)

Employment: subject, employment patterns of the over-50s. Witnesses: Mr Hugh Mellor and Mr Bernard Casey. (Room 8, 4.15 p.m.)

Committee on Private Bills: Unopposed - Newcastle upon Tyne Town Moor and Harwich Harbour (Room 9, 4 p.m.). Opposed - Associated British Ports (No. 2) North Killingholme Cargo Terminal.

Thursday

Commons: Debate on outstanding reports of the Public Accounts Committee.

Lords: Housing Bill, third reading.

Committee on Private Bills: Associated British Ports (No. 2) North Killingholme Cargo Terminal. (Room 6, 10.30 a.m.)

Friday

Commons: Debate on control of pollution of rivers and estuaries and condition of seas adjacent to Britain.

Trade Fairs and Exhibitions: UK

November 1-3
Company Asset Leasing Exhibition and Conference (07072 75641)
Barbican

November 1-3
Northern Food and Drink Show (01-486 1951)
G-Mex Centre, Manchester

November 1-3
ITEX – The Information Technology Exchange Exhibition (01-940 6065)
Barbican

November 1-6
Kensington Antiques Fair (04868 22562)
Kensington Town Hall

November 3-6
London Money Show - MONEY (01-940 2244)
Olympia

November 8-10
World Trade Services (Freight & Export) Exhibition and Conference (01-727 1929)
NEC, Birmingham

November 8-10
Accountants and Banking International Exhibitions (01-749 9535)
Barbican

November 12-16
International Woodworking Exhibition - WOODMEX (01-486 1951)
NEC, Birmingham

November 15-17
Food Ingredients Europe Exhibiton and Conference (0483 426606)
Wembley Conference Centre

November 22-27
Antiques Fair (04447 2514)
Barbican

Overseas Exhibitions

October 20-31
International Trade Fair SINTRA (01-834 5082)
Seoul

November 6-8
Lingerie and Hosiery Show (01-499 7291)
Paris

November 7-11
International Agribusiness Exhibition and Conference – AGCHINA (01-940 3777)
Beijing

November 8-12
International Technical Exhibition (including engineering, welding and chemical educational textiles) (01-486 1951)
Jakarta

November 9-12
International Home Furnishings and Appliance Show - JAPAN HOME SHOW (01-486 1951)
Tokyo

November 13-17
International Refrigeration, Ventilation, Air Conditioning and Heating Exhibition – REVAC (01-940 3777)
Jeddah

Business and management conferences

October 31- November 1
Financial Times Conferences: Professional personal computers in the 1990's (01-925 2323)
Hotel Inter-Continental, London W1

November 2-4
The British Production and Inventory Control Society: Integration for success (0279 56695)
Metropole Hotel, Birmingham

November 7
Euromoney: International mergers and acquisitions (01-236 3288)
The Plaza Hotel, New York

Novemer 7-8
Financial Times Conferences: The World outlook for mobile communications (01-925 2323)
Hotel Inter-Continental, London W1

November 7-8
The International Franchise Association: The elements of successful international franchising (01-630 7111)
Sheraton Hotel, Brussels

November 9
The Business Enterprise Unit: Europe 1992 - Meeting the challenge of the single market (0332 291732)
Albany Hotel, Nottingham

November 9-10
Taxbriefs: Life assurance and pensions conference (01-250 0967)
Royal Garden Hotel, London W8

November 10
International Herald Tribune: Mergers and acquisitions (01-379 4302)
Park Lane Hotel, London W1

November 11
London Chamber of Commerce: The refund of West German VAT paid by British Firms (01-248 4444)
69 Cannon St, London EC4

November 14-15
Business Research International: EC 1992-The changing face of European investment services (01-637 4383)
Portman Intercontinental, London W1

November 15
RASE/ADAS: Harnessing the new technologies for profitable beef breeding and production (0203 696969)
National Agriculture Centre

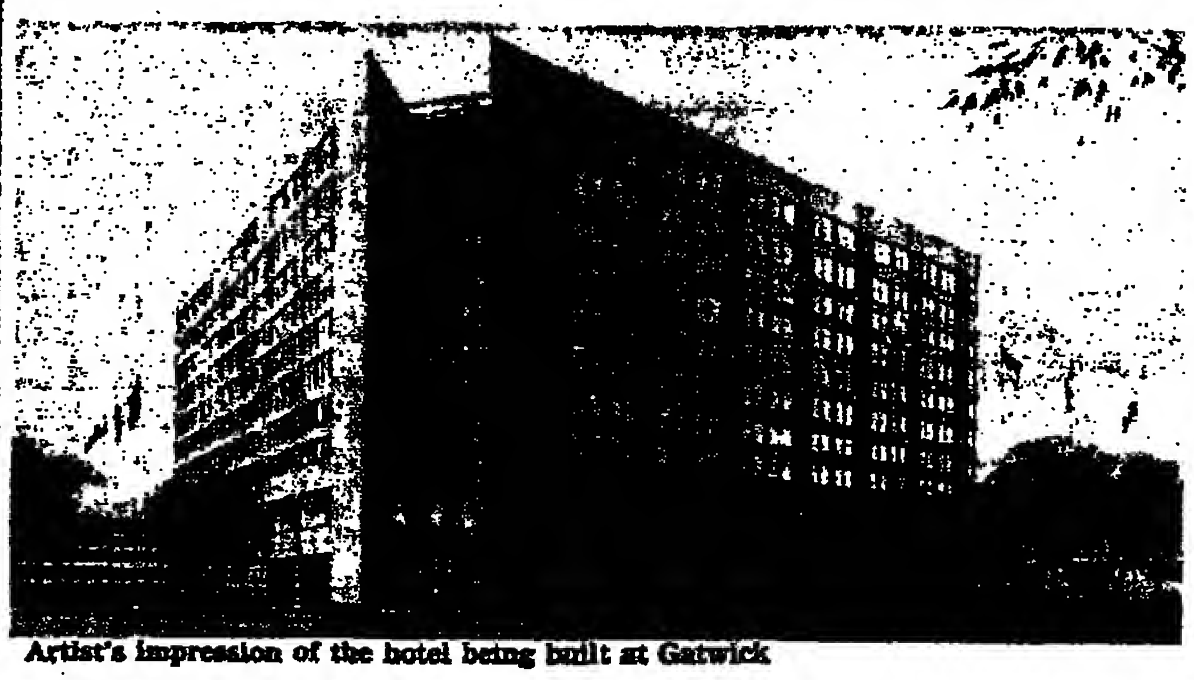
November 16-17
Unicom: Object orientated programming: fundamentals and scope of application (0895 56484)
Mount Royal Hotel, London

November 17
IRRG: Helplines – telephone assistance for insurance and other customers (01-236 2175)
Aldermary House, London EC4

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

CONSTRUCTION CONTRACTS

First BAA hotel at Gatwick



Artist's impression of the hotel being built at Gatwick

MOWLEM MANAGEMENT has been awarded a £27m contract for the first of a chain of hotels for the newly-formed hotels division of BAA.

The hotel will be built next to the new Gatwick Airport north terminal building. A feature will be a large central atrium housing restaurants, bars and lounges. The ten-storey, 475-bedroom establishment will be completed to 4-star standard.

Work consists of piled foundations, a reinforced concrete frame with metal panel, rainscreen, wall cladding and inset double glazed aluminium windows. The building will have asphalt and pvc flat roofs and a part-glazed atrium roof. Services will include air-conditioning, and eight lifts.

Other work includes an elevated link bridge to the north terminal building, access and distribution roads, landscaping, and car parking for 162 vehicles.

Construction has started, for completion in July 1990.

Developing The Broomielaw

LAING MANAGEMENT CONTRACTING (SCOTLAND) has won a £40m management contract for Phase I of the waterfront development of The Broomielaw in Glasgow.

Awarded by Glasgow & Oriental Developments, the contract involves construction of three office blocks, totalling 265,000 sq.ft. floor area. Each steel-framed building will have six floors with basement car parking, and the buildings will be accessible from a common area which will be partially landscaped, with a central fountain.

This project forms part of an overall development at The Broomielaw area in Glasgow, in which Phase I is scheduled for completion in 1991.

Hemel Hempstead office complex for Wiltshier

The JOHN E. WILTSHIER GROUP has received orders worth more than £16m.

Heading the list is a £9.9m contract from Legal and General Assurance Company for the construction of phase three of "The Campus", an office park development in Marylands Avenue, Hemel Hempstead. The company will build three three-storey blocks complete with car parking and associated landscaping works.

Arranged in three units of 43,000 sq ft, 25,000 sq ft and 14,000 sq ft, the offices will be fitted out with full air conditioning and raised floors.

At Sandhurst Military Academy, the company is to build living accommodation for junior ranks in a £1.1m contract from the Property Services Agency.

Wiltshier South East has started work on a £1.6m contract at Chatham dockyard to restore the Mast House and Mould Loft. The building is being prepared to house an exhibition showing how naval ships were made in the 18th century, which the Chatham Historic Dockyard Trust expects to open to the public in 1990.

Building offices in Leeds

QUARMBY CONSTRUCTION CO of Ilkley, Yorkshire, has been awarded a series of contracts totalling over £11m. The largest project is for the construction of 125,000 sq ft of riverside offices in the heart of Leeds for St James Securities.

Other projects include a mosque in Batley, an office building on Wellington Street, Leeds, an out-of-town store for Allied Carpets in Hull, an office building in Huddersfield for J. L. Brierley, and a sports hall for Queen Margaret's School, York.

Conder to build big shopping complex

CONDER STRUCTURES will build a one-third mile long steel structure for the Thurrock Lakeside Shopping Centre, Essex, being developed by Capital & Counties. The contract is worth £15.7m.

This project, believed to be the biggest shopping complex in the south of England, will require 12,000 tonnes of Conder steel to provide for the two-storey structures at each end, and a three-storey structure in the centre. There will be 1.315m sq.ft. of shopping and leisure area.

Conder will supply and erect floors and wall planks, using planks of prestressed concrete, each weighing 5 tons and measuring 3 metres deep by 5.4 metres wide. Work has started for completion in July/August next year.

Factories for Ford motors

BALFOUR BEATTY BUILDING, a BICC company, has been awarded two design and build contracts in South Wales by Ford (UK). The buildings, at Bridgend and Swansea, will provide about 1m sq.ft. of production space. The contracts are valued at about £30m and £10m respectively.

The scheme involves construction of two motor factories, which, when completed, will manufacture Ford's new lean-burn engine, to power its cars in the 1990s.

LEGAL COLUMN

Solicitors wrestle with partnership dilemma

By Raymond Hughes

LIKE IT or not (and like it they don't) solicitors are having to face up to the fact that the issue of mixed or multi-disciplinary partnerships (MDPs) between members of different professions is not going to go away.

First floated in 1984, the issue – ducked by the Marre committee on the future of the legal profession when it reported in July – has been brought firmly centre stage by last week's announcement by Lord Mackay, the Lord Chancellor, that MDPs will figure in his green paper on the organisation and work of the legal profession.

"It may be," Lord Mackay said, "that many people would not want to take part in multi-disciplinary practices but that, subject to appropriate safeguards, these should not be outlawed altogether."

Since the concept of mixed profession partnerships was mooted, offering the customer the competitive option of one-stop shopping for legal, financial and other services, the attitude of solicitors – whose rules at present forbid MDPs – has hardened against it.

In the summer the Scottish Law Society decided that MDPs were not in the interests of the public, the administration of justice, the law of Scotland or the legal profession.

English and Welsh solicitors question whether MDPs are in the public interest, being concerned about the possible dilution of the safeguards that their rules offer the public.

They point to legal professional privilege and the confidentiality which attaches to their dealings with clients – safeguards, they say, not matched by other professions.

They also say that majority control by solicitors would be a *sine qua non* for any mixed partnership.

Accountants, the most likely partners for solicitors should the latter's rules be changed to permit them to join MDPs, are, as a profession, quite enthusiastic about mixed practices.

Mr Brian Singleton-Green of the Institute of Chartered Accountants says its view is that, provided the different professional requirements can be met, MDPs are a good thing because they offer the consumer a wider choice.

He says that although the institute would be willing to have its members linking up with solicitors, that would be out of the question if solicitors were to insist on control.

He can see no reason why there could not be, for example, a practice consisting of solicitors, accountants and actuaries with the partners from each profession controlling their third of the practice.

Mr Singleton-Green says that client confidentiality exists in all professions, but he acknowledges that accountants cannot offer anything analogous to solicitors' legal professional privilege.

However, he does not see that as a barrier: the customer, he says, would still be protected by that privilege when dealing with a solicitor in a mixed practice.

He says some accountancy firms already employ solicitors

'If we go it alone, we shall lose business to the market-orientated multi-disciplinary partnerships'

and he anticipates that more will do so if the Law Society maintains its ban.

The idea that competition and consumer interest might require alteration of the rules of certain professions began to be debated about four years ago.

In July 1985, a "review of restrictions on inter-professional links or mixed partnerships" was announced in Parliament.

The review was carried out by Sir Gordon Borrie, the Director General of Fair Trading, who has since become a leading advocate of MDPs, believing that restrictions on competition in the professions have gone beyond what is justifiable in the public interest.

Recently Sir Gordon has hinted that if the Law Societies persist in banning MDPs he may refer them to the Monopolies and Mergers Commission.

The Law Society of England and Wales first debated the subject at its annual conference in Torquay in 1986, when there appeared to be a fairly even division of opinion.

The pro-MDP faction's view was summed up by Mr Robin Smith, chairman of the Society's professional and public relations committee.

"If we go it alone," he told the conference, "we shall in the shorter rather than the longer run lose business to the market-orientated multi-disciplinary partnerships of the sort the accountants are putting together, and also to the financial institutions which will also offer a market-orientated comprehensive service."

The opposing view was put by Mr John Wickerson, the president, who warned that conflicts of interest and problems of control were likely if solicitors became part of mixed partnerships.

Twelve months later Mr Wickerson's view was endorsed by his successor as president, Mr Derek Bradbeer, who told the Society's conference in Vienna that if solicitors were to be allowed to enter into MDPs it could only be on the basis that they had majority control.

The Law Society's latest public comments on the subject were scarcely more encouraging to the advocates of MDPs.

They came from Mr Richard Gaskell, the incumbent president, in his opening address to the Society's conference in Cardiff this month, the agenda for which was notable for the absence of a session on MDPs.

Reminding conference, somewhat redundantly, that the Society's ruling council had not yet formed any final view on the issue, Mr Gaskell said that talks were about to begin with other professions to see just how extensive would be the difficulties of fitting together their rules.

Asking what evidence there was that MDPs were in the public interest, Mr Gaskell noted that the two consumer organisations which had responded to the Law Society's consultation paper had said that the Society should end its absolute ban on mixed practice; that little had been heard from the public; and that "the business community, in particular, had been quiet – the CBI, for instance, is not hammering on our door demanding legal, financial and accountancy services under one roof."

Frankly acknowledging his personal position, Mr Gaskell said that he could not imagine being a partner with a chartered accountant or a chartered surveyor because of the absence of shared experience and common rules.

However, he did postulate an alternative model for the delivery of professional services, based on the anticipated introduction next year of rules enabling the incorporation of solicitors' practices.

He observed that the legal, and perhaps working, relationship of fellow directors in a company was not the same as that of partners, while even less similar was the relationship of directors of separate companies within a group.

He asked whether one way forward would be for groups of companies offering, through separate subsidiaries, a mix of professional services. He added, as though unwilling to be thought too enthusiastic: "If there really is a need for professional services to be offered under one umbrella."

Such an incorporated joint group practice would, he said, accord with his very strong instinct to keep each professional working unit, be it of solicitors, accountants, surveyors or whoever, separate, identifiable and accountable.

In short, thumbs down for MDPs, but a tentative thumbs up for some other form of mix 'n' match.

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LAW SOCIETY ADMISSIONS 15TH OCTOBER 1988

FT UNIT TRUST INFORMATION SERVICE

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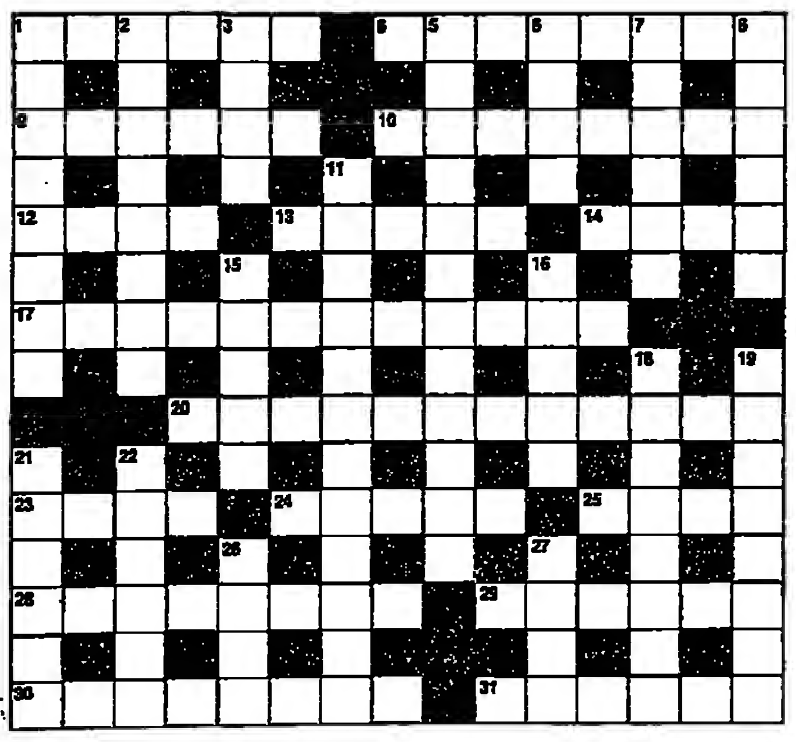

ACROSS

1 Take care of finger (6)
4 Take away sailor's stretch of land (8)
9 Time of year for gold rush (6)
10 British one has allowed for ornamental chain (8)
12 Listener hears correct religious procedure (4)
13 Transport network taking trouble with fish (5)
14 Financial Times turnover is partly property (4)
17 It's not sitting space (8,4)
20 Capable of being filled again and billed again (12)
23 Cross, abusive sound (4)
24 Pass on two points in grammar (5)
25 The boss used to breed horses (4)
28 The Wicked Lady building on immorality (3-5)
29 Hold first live act properly (6)
30 Ashen but transformed by endeavour to get brown (8)
31 For each round amateur is a contestant (6)

DOWN

1 Leader and others provide capital support (8)
2 An unusual thing to disturb bird (8)
3 Hear composer put on record (4)
5 Evidence supports crook taking safe from thieves (7-5)
6 Instant credit (4)
7 Resting like American general – quietly (6)
8 Scrap of food bird got teeth into (6)
11 Bilingual gloss (6,6)
15 Gradually pushed advantage on to daughter (5)
16 Shelter in inlet on river (5)
18 Disturbed about accepting island line's announcement of departure (8)
19 Principal equipment for bowler perhaps? (8)
21 Emergency is repeated after credit contraction (6)
22 Only heartless people are pompous (6)
26 Speculate on a classical character (4)
27 Aquatic mammal seen in the deep lake (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 12.

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours. ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.

Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

	Bid Price	Offer Price	Yield Gross	City-line

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0603 622986

Norwich Union Life Insurance Soc.
0603 622200

Pearl Assurance (Unit Funds) Ltd

Phoenix Assurance Co Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Pro-Life Life & Pensions Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd

Providence Capital Life Assc. Co Ltd – Contd.

Provident Life Assoc Ltd

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Heritage Life Assurance Ltd – Contd.

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

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Scottish Equitable Life Assce. Soc.

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Scottish Mutual Assurance Society

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Blackstone Franks Plc

Bryan Walls & Partners Ltd

Cameron Law & Company Ltd

James Campbell & Son Financial Services Ltd

Chase de Vere Investments Ltd

Clifton Financial Mngmt Ltd

Drummond Moores Plc

First Financial Services PLC

The Fitzgerald Group

Gartmore Fund Managers Ltd

Hinton Hill (C. & F) Ltd

Investment Portfolio Services Ltd

Johnson Fry Plc

Kingsdale Financial Management

Knight Williams & Company Ltd

Lamont & Partners Plc

M & C Financial Management Plc

North Financial Management Ltd

Noble Lowndes & Partners Ltd

The Norchester Group

O'Halloran & Co

Robinson Fund Mngt Ltd

PWR Fund Management Ltd

The Parchester Group

Rockwell Financial Management Ltd

Shore (Albert E) & Co

Sittals Fund Managers Limited

Tattersall Investment Mngt. Ltd

Terry Law & Co

University Medical General Ltd.

J. D. Ward Financial Services Ltd

Ward Consultancy

Yorkshire & Lancashire Investment Mgt.

The Bangkok Fund

Brazil Capital Services Ltd

CMI Financial Mngmt Services Ltd

Capital House Fund Mngrs. (C.I.) Ltd

Capital House Fund Mngrs. – Contd.

Cater Allen Investment Management (CI)

Citibank (CI) Ltd "Citifunds"

Delta Group

EBC Trust Company (Jersey) Ltd

Equity & Law International Fund Mgr Ltd

Foreign & Colonial Mngmt (Jersey) Ltd

Framlington Overseas Fund Mngt. Ltd

Gartmore Investment Ltd

Global Asset Management Corpn.

John Govett Management (Jersey) Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Hill Samuel Fund Managers (Jersey) Ltd

Ivory & Sime (Guernsey) Ltd

Jardine Fleming Inv Mgmt Ltd

Kleinwort Benson (Guernsey) Fd Mngrs Ltd

Lloyds Bank (CI) U/T Mgrs.

MIM Britannia International Limited

Minerals, Oils Res. Shrs. Fd. Inc.

MN Schroder Financial Mgmt Intl Ltd

PFC International Portfolio Fd Mngt Ltd

Prudential-Bache Intl Financial Services Ltd

Quilter International Management Ltd

Rothschild Asset Management

Royal Bank of Canada Funds

Royal Trust Fd Mngt Ltd

Save & Prosper International

Target International (Guernsey) Ltd

Thornton Investment Management Ltd

Touche Remnant (Guernsey) Limited

Tyndall International (Jersey) Ltd

Warburg Investment Management Jersey Ltd

OFFSHORE INSURANCES

Albany International Assurance Ltd

CMI Insurance Co Ltd

Eagle Star International

Equity & Law Intl Life Assur Co Ltd

Family Assurance Group

ST/1.077 HOP

FT UNIT TRUST INFORMATION SERVICE

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

[illegible]

Index-Linked

[illegible]

Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1988:103.7 and for September 1988:108.4

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

[illegible]

World Capital Grwth Fd-SICAV

World Fund S.A.

World Natural Resources

Yamaichi Capital Mngt (Guernsey) Ltd

Yamaichi Dynamic Mngt Co SA

Money Market Trust Funds

	Gross	Net	Equiv CAR	City-line
Charities Aid Fndtn Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6441				
CAFCASH Call Fund	10.99	8.43	11.40	–
CAFCASH 7-day Fund	11.12	8.53	11.75	–
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	11.50	–	12.01	–
Gartmore Money Management Ltd				
61 Queen St, London, EC4R 1PN. 01-236 1425				
Call Fnd	11.33	8.70	11.85	–
7-day Fund	11.11	8.53	11.61	–
Dollar	7.00	5.37	7.29	–

Money Market Bank Accounts

	Gross	Net	Equiv CAR	City-line
AAB—Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-429 6802				
HICA (£2000+)	12.00	9.21	12.81	–

[illegible]

Provincial Bank PLC

Royal Bank of Scotland plc

Save & Prosper/Robert Fleming

Tyndall & Co Ltd

J. Henry Schroder Wagg & Co Ltd

Western Trust High Interest Cheque Acc

Wimbledon & South West Finance Co Ltd

NOTES—Gross rate is those ensmet from [illegible] rate of tax. Net actual rate after deduction of CRT Cr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate int. Cr frequency interest credited.

UNIT TRUST NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. [illegible] Distribution free of UK taxes. [illegible] Periodic premium insurance plans. [illegible] Single premium insurance. [illegible] Offered price includes all expenses except agent's commission. [illegible] Previous day's price. [illegible] Guernsey gross. [illegible] Suspended. [illegible] Yield before Jersey tax. [illegible] Ex-subdivision. [illegible] Only available to charitable bodies. [illegible] Yield column shows annualised rates of NAV increase. [illegible]

LONDON SHARE SERVICE

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS—Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

31·10·88 TOP

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Contd

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ■■ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	71	
Craig & Rose £1 γ	690	
Finlay Pkg. 5p γ	86	+1
Holt (Jos) 25p γ	511½	+½

IRISH

Cap. 8¼% Ln. 1991	£99¾	
9pc Cap Ln. 1996	£103¼	
Fin. 13% 97/02	£124¼	
Arnotts γ	395	
Carrol Inds. γ	167	
Grafton Grp. γ	145	
Hall (R. & H.J.)	158	+2
Heiton Hldgs. γ	45	-3
Irish Ropes γ	165	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp.	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	36
Brit Aerospace	35
Brit. Telecom	22
Burton Ord.	21
Cadburys	32
Charter Cons.	30
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met.	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd.	48
ICI	72
Jaguar	24
Ladbroke	38
Legal & Gen.	25
Lex Service	33
Lloyds Bank	26
Lucas Inds.	50
Marks & Spencer	17
Midland Bk.	37
Morgan Grenfell	38
NEI	10
Nat West Bk.	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect.	32
RHM	30
Rank Org Ord.	64
Reed Intnl.	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	38
Land Securities	52
MEPC	52
Peachey	50

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	48
Premier	7½
Shell	95
Ultramar	26

Mines	
Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Problems of trying to pick a winner

By Colin Millham

THE PROBLEM with Britain's much improved trade position in September is that City economists did not forecast it, and are now busy trying to explain why they were right, even though they were wrong.

Forecasting the trade figures is something of a nightmare for analysts. It is probably slightly easier than trying to find the winner of the William Hill November Handicap, but not much more scientific.

There are always erratic items, and these were particularly favourable last month. The postal dispute was expected to have an adverse impact on export volumes, but after official adjustments probably worked in the other direction.

This has led to suspicions that some of October's exports have found there way into the September figures.

Taking out the erratic items and prudent adjustments, economists can reasonably argue that most of them were not too far wrong in forecasting an unchanged current account deficit of £1.3bn in September, even though the published shortfall was £560m.

Barclays de Zoete Wedd says: It would be going too far to say the figures are cooked, but there may well have been a strategic disclosure of asymmetrically distributed information!

BZW adds: The outcome for the current account deficit for 1988 is still likely to be about £14bn. This seems to be the general view of City economists, and is one reason why sterling failed to appreciate further, after the initial wave of euphoria had been absorbed on Thursday.

As analysts sought to justify their view of the trade picture they were tending to talk the pound lower, but in the end there was still much relief that the situation was not worse.

Mr Nigel Lawson, the Chancellor, reassured the markets, when he told Parliament that interest rates will be kept high, until pressure on inflation eases, and that there will be no attempt to improve the trade position with a devaluation of sterling.

The Chancellor is expected to make his Autumn economic statement tomorrow.

Reassuring talk is the cheapest form of intervention, but as Mr Lawson has hinted, the more often ministers seek to soothe nerves in this way, the less effective it becomes.

Wednesday's figures on official reserves will indicate whether the Bank of England has been forced to use more expensive forms of direct intervention.

Ahead of the trade figures there was some fear sterling could fall to DM3.08, but support held at DM3.12, and the pound finished the week little changed at around DM3.14.

There is still a suspicion the pound could eventually rise to about DM3.25, because of a combination of slack fiscal and tight monetary policy.

The dollar has become a rather dull currency. It is not an attractive proposition to buy, but there are also dangers in heavy selling.

Recent statistics, including Wednesday's announcement of a slowdown in third quarter US Gross National Product growth, have reduced the fear of overheating, and the need for higher interest rates.

On the other hand the central banks are hovering in the background, and the market does not want to provoke intervention by selling the currency too aggressively.

As the central banks have succeeded in keeping the dollar in a narrow range, attention has turned to cross rate trading, including the members of the European Monetary System.

Britain was not the only country to release better than expected trade figures last week. France turned a trade deficit of FFr9bn in August into a surplus of FFr400m in September.

This may have saved the Bank of France from putting up interest rates in the near future. Until the trade figures were announced dealers felt that a rise in interest rates was the only way to prevent the franc slipping to its lowest permitted limit in the EMS.

£ IN NEW YORK

Oct.28	Close	Previous Close
[illegible]	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct.28	Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

Oct.28	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

Oct.28	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Oct.28	£	$
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

Oct.28	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Oct.28	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT - FORWARD AGAINST THE POUND

Oct.28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Oct.28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W Germany	1.7725 - 1.7880	1.7745 - 1.7755	0.53-0.50pm	3.48	1.64-1.59pm	3.64
Portugal	147 - 148	147 - 147¼	45-65cdis	-4.48	135-190dis	-4.42
Spain	117.40 - 118.15	117.40 - 117.50	15-25cdis	-2.04	75-85dis	-2.72
Italy	1319 - 1329	1321 - 1321½	2.50-3.00lire dis	-2.50	8.40-9.10dis	-2.65
Norway	6.62¼ - 6.64½	6.62¼ - 6.63¼	2.00-2.20oredis	-3.80	5.95-6.25dis	-3.68
France	6.05½ - 6.10	6.06¼ - 6.06¾	0.26-0.19cpm	0.45	0.70-0.55pm	0.41
Sweden	6.16½ - 6.19½	6.17¼ - 6.17¾	0.95-1.10oredis	-1.98	2.60-2.90dis	-1.78
Japan	125.60 - 126.30	125.70 - 125.80	0.44-0.41ypm	4.06	1.31-1.29pm	4.12
Austria	12.48½ - 12.55	12.52¼ - 12.53¼	3.10-2.80gropm	0.71	9.20-8.20pm	2.73
Switzerland	1.4930 - 1.5070	1.4975 - 1.4985	0.59-0.56cpm	4.61	1.79-1.73pm	4.69

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.50-37.60.

MONEY MARKETS

Less risk of an upward spiral in rates

THE EVENTS of last week suggest there is now less risk of an upward spiral in world interest rates.

The US economy appears to be slowing down, after much weaker than expected figures on September US durable goods orders and third quarter GNP growth.

The Bank of Japan suggested last week that the British economy is overheating, but UK interest rates have already been pushed very high for this reason.

The possibility that bad trade figures would force another rise in bank base rates has been put off for at least another month, and France may have also been saved from higher interest rates in the immediate future, by better than forecast September trade figures.

West Germany is playing an important role in guiding interest rates, and appears keen not to provoke any defensive movements by other countries.

The Bundesbank council meets on Thursday, but is unlikely to change monetary policy.

Moves by the central bank last week were broadly neutral, while possibly leaning slightly towards easing. A variable rate securities repurchase agreement tender encouraged a rise in short term money rates, but this was short lived.

Fear of not receiving an allocation made banks over aggressive in bidding for funds, at a time when their reserve holdings were already high enough for the month.

Rates fell towards the end of the week, and the general position should be made technically more liquid in November when the Bundesbank increases its rediscount quotas, the amount banks can borrow at the minimum 3.5 p.c. discount rate.

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	10	One month	7.28	Three year	8.33
Broker loan rate	9¾	Two month	7.13	Four year	8.37
Fed.funds	8¼-⅜	Three month	7.62	Five year	8.40
Fed.funds at intervention	8⅜	Six month	7.90	Seven year	8.56
		One year	8.08	10-year	8.69
		Two year	8.27	30-year	8.80

Oct. 28	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.00-4.50	4.70-4.85	4.75-4.90	4.85-5.00	4.90-5.05	5.00
Paris	7⅝-7⅞	7¾-7⅞	7⅞-8	8-8⅛	8⅛-8¼	7.25
Zurich	1½-1¾	3¼-3½	-	3½-3⅝	-	-
Amsterdam	5.06-5.18	5.15-5.25	-	5.25-5.35	-	-
Tokyo	3.84375	4.15625	-	4.28125	-	-
Milan	10½-10¾	11½-11¾	-	11½-11¾	-	-
Brussels	6.20	7¼-7⅜	-	7¼-7⅜	-	-
Dublin	7½-7¾	7⅝-7⅞	7½-7¾	7⅝-7⅞	7⅝-7⅞	-

LONDON MONEY RATES

Oct.28	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	12¼	12⅛	12	12⅛	12	11⅞
Interbank Bid	9½	11¾	11⅞	11⅞	11⅞	11¾
Sterling CDs	-	-	11⅞	12	11⅞	11¾
Local Authority Deps.	12⅛	11⅞	11⅞	11⅞	12	11¾
Local Authority Bonds	-	-	12¼	12¼	12¼	12⅛
Discount Mkt Deps.	12	11¾	11⅝	11⅞	-	-
Company Deposits	-	-	11⅞	12	12⅛	11¾
Finance House Deposits	-	-	11⅞	12⅛	12	11⅞
Treasury Bills (Buy)	-	-	11⅞	11⅞	-	-
Bank Bills (Buy)	-	-	11⅞	11⅞	11⅞	-
Fine Trade Bills (Buy)	-	-	12⅝	12⅝	12	-
Dollar CDs	-	-	8.30-8.25	8.50-8.45	8.50-8.45	8.65-8.60
SDR Linked Dep Offer	-	-	7⅛	7⅜	7⅝	7⅞
SDR Linked Dep Bid	-	-	6⅞	7⅛	7¼	7⅝
ECU Linked Dep Offer	-	-	7½	7⅝	7⅝	7⅝
ECU Linked Dep Bid	-	-	7⅜	7⅜	7½	7½

Treasury Bills (sell): one-month 11¼ per cent; three months 11⅝ per cent; Bank Bills (sell): one-month 11⅞ per cent; three months 11⅝ per cent; Treasury Bills: Average tender rate of discount 11.5015 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day Sept.30, 1988. Agreed rates for period October 26,1988 to November 25, 1988, Scheme I: 13.12 p.c., Schemes II & III: 13.41 p.c. Reference rate for period Sept.1,1988 to Sept.30, 1988, Scheme IV&V: 12.234 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 from October 1, 1988. Bank Deposit Rates for sums at seven days notice 3.75 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July 5,1988. Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

11.00 a.m. Oct.28 3 months US dollars		6 months US Dollars	
bid 8½	offer 8⅝	bid 8½	offer 8⅝

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Oct.28	Oct.21		Oct.28	Oct.21
Bills on offer	£100m	£400m	Top accepted rate of discount	11.5115%	11.5918%
Total of applications	£717m	£1826m	Average rate of discount	11.5015%	11.5736%
Total allocated	£100m	£400m	Average yield	11.8410%	11.9175%
Minimum accepted bid	£97.130	£97.110	Amount on offer at next tender	£100m	£100m*
Allotment at minimum level	-	22%	*Also £400m for 63 Day Bills		

WEEKLY CHANGE IN WORLD INTEREST RATES

	Oct.28	change		Oct.28	change
LONDON			**NEW YORK**		
Base rates	12	Unch'd	Prime rates	10	Unch'd
7 day Interbank	12⅛	Unch'd	Federal Funds	8¼	-⅛
3-month Interbank	12⅛	+⅛	3 Mth. Treasury Bills	7.64	+0.04
Treasury Bill Tender	11.5015	-0.0721	6 Mth. Treasury Bills	7.90	+0.07
Band 1 Bills	11⅞	Unch'd	3 Mth. CD	8.475	Unch'd
Band 2 Bills	11⅞	Unch'd	**FRANKFURT**		
Band 3 Bills	11⅞	Unch'd	Lombard	5.00	Unch'd
Band 4 Bills	11⅞	Unch'd	One mth. Interbank	4.775	-0.050
3 Mth. Treasury Bill	11⅞	+⅛	Three month	4.925	-0.050
1 Mth. Bank Bills	11⅞	-⅛	**PARIS**		
3 Mth. Bank Bills	11⅞	-⅛	Intervention Rate	7.25	Unch'd
TOKYO			One mth. Interbank	7⅞	-⅛
One month Bills	4.15625	-0.6250	Three month	8	-⅛
Three month Bills	4.34375	-0.6250	**MILAN**		
BRUSSELS			One month	11⅝	+⅛
One month	7⅜	-⅛	Three month	11⅝	Unch'd
Three month	7⅜	-⅛	**DUBLIN**		
AMSTERDAM			One month	7⅝	-⅛
One month	5.2000	-0.1125	Three month	7⅝	+⅛
Three month	5.3000	-0.0125			

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	FRIDAY OCTOBER 28 1988: US Dollar Index	% Change Since Dec.31 87	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY OCTOBER 27 1988: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1988 High	1988 Low	Year ago (approx)
Australia (91)	148.56	+41.8	124.54	120.10	4.17	148.95	124.69	120.32	152.31	91.16	93.49
Austria (17)	95.45	-5.3	80.02	88.31	2.43	95.73	80.14	88.20	96.18	83.72	94.39
Belgium (63)	129.81	+25.8	108.82	120.20	4.21	129.91	108.75	120.30	139.89	99.14	102.15
Canada (125)	124.59	+12.8	104.45	108.62	3.12	124.56	104.27	108.64	128.91	107.86	105.12
Denmark (39)	148.33	+28.5	124.35	138.04	2.19	148.99	124.73	138.05	148.99	111.42	107.12
Finland (26)	126.95	+10.4	106.43	112.25	1.48	126.43	105.84	111.62	139.53	106.78	-
France (130)	108.76	+26.3	91.17	103.47	3.14	107.98	90.39	102.47	108.76	72.77	86.67
West Germany (102)	87.27	+12.9	73.16	80.54	2.30	87.49	73.24	80.69	87.49	67.78	82.66
Hong Kong (46)	106.88	+20.0	89.60	107.17	4.71	107.01	89.59	107.29	111.86	84.90	85.53
Ireland (18)	140.39	+34.1	117.69	231.53	3.82	140.91	117.96	131.83	144.25	104.60	111.86
Italy (100)	83.35	+7.2	69.88	82.25	2.45	83.48	69.88	82.29	84.35	62.99	79.52
Japan (456)	171.65	+21.4	143.90	136.44	0.54	171.98	143.97	136.70	177.27	133.61	134.44
Malaysia (36)	140.05	+25.4	117.41	144.13	2.97	140.96	118.00	144.84	154.17	107.83	105.95
Mexico (13)	156.92	+48.8	131.55	392.37	1.39	156.88	131.33	392.27	180.07	90.07	231.55
Netherland (38)	111.00	+10.7	93.06	101.43	4.86	110.31	92.35	100.78	111.00	95.23	101.44
New Zealand (26)	74.01	-2.8	62.05	62.58	6.32	74.62	62.47	63.02	84.05	64.42	86.53
Norway (25)	119.12	+17.1	99.86	107.20	2.71	118.45	99.16	106.47	132.23	98.55	124.54
Singapore (26)	121.53	+24.9	101.88	112.04	2.42	122.67	102.69	112.97	135.89	97.99	95.71
South Africa (60)	111.31	-16.6	93.31	98.31	4.61	110.69	92.66	97.76	139.07	98.26	130.14
Spain (42)	150.44	+13.4	126.12	133.86	3.03	150.33	125.85	134.05	164.47	138.73	122.39
Sweden (35)	130.25	+31.4	109.20	119.07	2.40	130.19	108.99	119.15	130.25	96.92	105.67
Switzerland (56)	84.89	+1.7	71.17	78.84	2.14	84.68	70.89	78.41	86.75	74.13	85.31
United Kingdom (321)	137.59	+3.8	115.35	115.35	4.57	137.28	114.92	114.92	141.18	120.66	122.98
USA (579)	113.56	+13.0	95.20	113.56	3.53	113.09	94.67	113.09	115.55	99.19	102.99
Europe (1012)	114.42	+9.5	95.92	101.61	3.65	114.22	95.61	101.31	114.42	97.01	102.05
Pacific Basin (681)	168.10	+21.9	140.92	134.47	0.76	168.43	141.00	134.74	172.26	130.81	131.06
Euro-Pacific (1693)	146.65	+17.7	122.94	121.25	1.67	146.77	122.87	121.30	147.53	120.36	119.50
North America (704)	114.14	+12.9	95.69	113.28	3.31	113.69	95.18	112.84	116.07	99.78	103.10
Europe Ex. UK (691)	99.84	+14.5	83.70	93.25	2.92	99.71	83.47	93.03	99.84	80.27	89.07
Pacific Ex. Japan (225)	125.30	+30.2	105.05	109.83	4.32	125.69	105.22	110.09	128.27	87.51	90.19
World Ex. US (1891)	145.54	+17.2	122.01	120.72	1.74	145.65	121.93	120.76	146.49	120.26	119.18
World Ex. UK (2149)	132.76	+17.1	111.29	118.54	2.08	132.67	111.06	118.44	132.96	111.77	111.92
World Ex. So. Af. (2410)	133.30	+16.0	111.75	118.36	2.30	133.20	111.50	118.23	133.38	113.26	112.78
World Ex. Japan (2014)	114.73	+12.0	96.18	109.16	3.60	114.41	95.78	108.80	115.54	100.00	102.58
The World Index (2470)	133.17	+15.8	111.64	118.23	2.31	133.06	111.39	118.18	133.24	113.37	112.89

Base values: Dec 31, 1986 = 100. Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).
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CONSTITUENT CHANGES: Deletions: Fort Howard and Transworld Airlines (both US).

EUROPEAN OPTIONS EXCHANGE

Series		Nov. 88 Vol.	Last	Feb. 89 Vol.	Last	May 89 Vol.	Last	Stock
GOLD C	$400	-	-	130	27	-	-	$412
GOLD C	$420	25	3.50 A	74	14.50 B	-	-	$412
GOLD P	$380	7	1.30	22	3	-	-	$412
GOLD P	$390	12	1.70	45	4	23	6	$412
GOLD P	$400	8	3.60 B	[illegible]	6	25	8	$412
GOLD P	$420	44	9.50	25	11.50	5	14	$412
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PHILIPS C	Fl. 35	742	0.80	354	1.60	769	2.40	Fl. 31.90
PHILIPS P	Fl. 30	69	0.40	145	2.19	57	2.50	Fl. 31.90
ROYAL DUTCH C	Fl. 230	345	6.50	51	11.50	103	13.50	Fl. 226
ROYAL DUTCH P	Fl. 230	318	7.50	217	10	25	14	Fl. 226
UNILEVER C	Fl. 130	618	2.40	156	5.30	4	7.40	Fl. 122.20
UNILEVER P	Fl. 120	354	4.90	303	6.50	4	8.30	Fl. 121.20
VAN OMMEREN C	Fl. 35	2	0.30	80	1.50	112	2.20	Fl. 32.10
WESSANEN C	Fl. 80	122	5.40	-	-	-	-	Fl. 83
WESSANEN P	Fl. 80	55	2	-	-	-	-	Fl. 83

TOTAL VOLUME IN CONTRACTS: 48,432

A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renun. date	1988 High	Low	Stock	Closing Price	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renun. date	1988 High	Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renun. date	1988 High	Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	12	City Merchants Bank	12	NatWestminster	12
Adam & Company	12	Clydesdale Bank	12	Northern Bank Ltd	12
AAB - Allied Arab Bk	12	Comm. Bk. N. East	12	Norwich Gen. Trust	12
Allied Irish Bank	12	Co-operative Bank	*12	PRIVATbanken Limited	12
● Henry Ansbacher	12	Coutts & Co	12	Provincial Bank PLC	13
ANZ Banking Group	12	Cyprus Popular Bk	12	R. Raphael & Sons	12
Associates Cap Corp	12	Dunbar Bank PLC	12	Roxburghe Guarantee	12½
Authority Bank	12	Duncan Lawrie	12	Royal Bk of Scotland	12
● B & C Merchant Bank	12	Equatorial Bank plc	12	Royal Trust Bank	12
Bank of Baroda	12	Exeter Trust Ltd	12½	● Smith & Williamson Secs.	12
Banco Bilbao Vizcaya	12	Financial & Gen. Bank	12	Standard Chartered	12
Bank Hapoalim	12	First National Bank Plc.	13	TSB	12
Bank Leumi (UK)	12	● Robert Fleming & Co.	12	UDT Mortgage Exp.	§12.75
Bank Credit & Comm.	12	Robert Fraser & Ptns.	12½	United Bk of Kuwait	12
Bank of Cyprus	12	Girobank	12	United Mizrahi Bank	12
Bank of Ireland	12	● Guinness Mahon	12	Unity Trust Bank Plc	12
Bank of India	12	HFC Bank plc	12	Western Trust	12
Bank of Scotland	12	● Hambros Bank	12	Westpac Bank Corp.	12
Banque Belge Ltd	12	Heritable & Gen. Inv. Bnk.	12	Whiteaway Laidlaw	12½
Barclays Bank	12	● Hill Samuel	§12	Yorkshire Bank	12
Benchmark Bank PLC	12	C. Hoare & Co	12		
Berliner Bank AG	12	Hongkong & Shangh.	12		
Brit Bk of Mid East	12	● Leopold Joseph & Sons	12		
● Brown Shipley	12	Lloyds Bank	12		
Business Mtge Tst.	12½	McDonnell Douglas Bank	12.25		
CL Bank Nederland	12	Meghraj Bank Ltd	12		
Central Capital	12	Midland Bank	12		
● Charterhouse Bank	12	Mount Banking Corp.	12		
Citibank NA	12	Nat Bk. of Kuwait	12		

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 5.22% Sureise 8.47%. Top Tier-£10,000 + instant access 11.06% & Mortgage base rate. § Demand deposit 7%. Mortgage 12.375% - 12.75%

[illegible]

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA (continued) | AUSTRALIA | HONG KONG | SINGAPORE

CANADA

TORONTO
Closing prices October 28

MONTREAL
Closing prices October 28

INDICES

NEW YORK — DOW JONES

	Oct 28	Oct 27	Oct 26	Oct 25	1988 High	1988 Low	Since compilation High	Since compilation Low
Industrials	2149.89	2140.83	2165.18	2173.36	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	90.31	90.22	90.18	89.96	91.25 (3/3)	86.12 (4/1)	–	–
Transport	922.95	921.59	935.01	938.33	938.33 (25/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	186.05	185.87	186.88	186.05	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

ф Day's High 2166.43 (2165.54) Low 2136.67 (2120.91)

STANDARD AND POOR'S	Oct 28	Oct 27	Oct 26	Oct 25	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	278.53	277.28	281.38	282.38	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial (latest)	320.71	319.18	324.22	325.04	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	25.82	25.76	26.08	26.10	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	156.79	156.17	158.37	158.87	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	303.75	300.64	303.44	304.38	309.33 (20/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	382.79	381.77	385.19	386.12	394.77 (18/7)	331.97 (12/1)	455.26 (26/8/87)	54.87 (31/10/72)

	Oct 21	Oct 14	Oct 7	year ago (approx.)
Dow Industrial Div. Yield	3.54	3.63	3.60	3.54
	Oct 26	Oct 19	Oct 12	year ago (approx.)
S & P Industrial div. yield	3.07	3.12	3.15	3.31
S & P Indl. P/E ratio	13.65	13.42	13.15	16.39

TRADING ACTIVITY

‡ Volume Millions	Oct 28	Oct 27	Oct 26
New York	146.300	196.540	182.772
Amex	8.403	8.215	9.000
OTC	106.012	122.656	110.409

NEW YORK	Oct 28	Oct 27	Oct 26
Issues Traded	1,947	1,946	1,934
Rises	853	310	610
Falls	580	1,198	813
Unchanged	514	438	511
New Highs	24	27	47
New Lows	19	34	24

CANADA

TORONTO	Oct 28	Oct 27	Oct 26	Oct 25	1988 High	1988 Low
Metals & Minerals	2930.2	2935.2	2946.9	2947.4	3226.5 (5/7)	2238.7 (8/2)
Composite	3405.5	3404.8	3430.1	3424.5	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1688.05	1692.08	1707.58	1706.96	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Rollins	5,015,500	10⅞	– 2⅛	Sanla	1,899,400	[illegible]	+ [illegible]
Nabisco RJR	4,756,800	85	+ 3	AT&T	1,722,400	28	+ ⅛
Gen Motors	3,637,000	83⅞	+ 3⅞	Sears Roe	1,712,200	43⅝	+ ⅞
Kroger	2,442,800	10¼	+ 1¼	Mer Lynch	1,661,200	27⅞	
Kraft Inc	2,362,500	96½	+ 2	Nwsp Corp	1,498,300	46	+ ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct 28	Oct 27	Oct 26	Oct 25	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1581.5	1583.6	1582.1	1580.6	1657.8 (9/9)	1170.7 (10/2)
All Mining (1/1/80)	744.9	745.9	743.0	737.1	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	217.8	217.4	(c)	218.0	219.50 (21/10)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/80)	5340.00	5343.00	5347.90	5337.32	5347.90 (26/10)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	245.61	245.30	244.84	241.90	245.61 (28/10)	180.68 (4/1)
FINLAND						
Unitas General (1975)	717.2	713.6	714.3	714.7	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	392.3	392.2	391.3	388.5	392.3 (28/10)	251.3 (29/1)
Ind. Tendance (31/12/87)	151.4	151.2	151.5	151.0	151.5 (26/10)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	540.68	542.21	537.73	530.94	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1637.00	1641.60	1627.50	1607.90	1641.60 (27/10)	1207.9 (29/1)
DAX (30/12/87)	1314.98	1313.95	1310.63	1293.72	1314.98 (28/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2614.47	2617.25	2610.62	2584.53	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	580.38	580.49	584.85	582.44	592.69 (20/10)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27741.34	27722.92	27620.60	27421.49	28423.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2134.32	2140.96	2130.80	2120.78	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	285.5	285.6	285.8	282.4	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	251.0	250.7	250.3	246.8	251.0 (28/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	406.42	402.47	399.84	401.17	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1035.01	1040.10	1043.22	1036.69	1177.87 (8/8)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1343.0	1331.0	1320.0	1297.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1840.0	1829.0	1809.0	1801.0	1840.0 (28/10)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	288.93	289.84	291.04	291.49	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3215.70	3227.40	3233.10	3217.70	3233.10 (26/10)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	581.1	577.2	580.3	578.5	582.3 (21/10)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	471.0	471.8	468.9	471.8 (26/10)	401.0 (21/1)

** Saturday Oct. 29: Japan Nikkei 27,961.01 and TSE 2,146.56
ф Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks
Friday 28 October 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	234.2m	863	–0	Kawasaki Heavy	80.2m	846	+2
Mitsubishi Heavy	108.8m	1,040	+20	Osaka Gas	79.8m	880	+10
Kawasaki Steel	148.4m	1,040	–10	Sumitomo Metal	72.7m	790	–10
NKK	87.6m	657	+1	Kobe Steel	64.2m	712	–4
Mitsui Mining & Smelting	81.3m	754	+34	Isuzu	63.8m	1,050	+51

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chg
27⅞	13½	Zayre	.40	1.5	72	5526	25⅞	25¼	25⅝	+ ⅛
15½	8⅝	Zemex	.40	2.7	18	3	14⅞	14⅞	14⅞	− ⅛
30	10	ZenithE				653	19¼	18⅝	18⅞	
10⅛	9½	Zeoln n	.49e	4.9		87	10	9⅞	10	+ ⅛
4⅛	1	vjZenLb				231	2⅛	2	2	
21⅝	12⅝	Zenith	.80	4.6	8	382	17⅝	17⅜	17⅜	− ⅛
17⅛	11⅞	Zero	.40	2.4	14	280	16⅝	16⅜	16⅜	− ⅛
29	15⅛	Zurn	.68	2.6	15	1350	27⅛	25⅛	25⅜	−3½
11⅝	8	Zweig	1.04	8.9		263	11½	11⅜	11⅝	
10⅛	10	ZweigT n				775	10⅛	10	10⅛	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 27

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 4pm prices October 27

[illegible]

Stock	Div.	Sales 100s	High	Low	Last	Chng
		-X-Y-Z-				
XL Dta		38 501	27¼	26	26⅝	+ ⅝
XOMA		121	13¼	13	13	
X-Rite s		14 92	9½	9	9¼	− ¼
Xicor		12 1036	7⅝	7½	7⅝	+ ⅛
Xyvan		13	4⅞	4⅞	4⅞	
YelowF	.70	20 2292	33½	33	33	− ⅝
ZionUt	1.44	73	25¼	24¾	25¼	+ ½

4pm prices October 28

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 37

The Business Column

Spreading a cleaner word on chemicals

What is the connection between holes in the ground in the Swiss city of Basle and weaknesses in the way the European chemicals industry explains itself to the public?

Ciba-Geigy, Sandoz and F. Hoffman-La Roche – the three big Basle-based chemicals companies – are digging holes around their plants and warehouses which will be used in the event of fire. The basins will prevent water used to fight the fire from draining into the nearby River Rhine and contaminating it with toxic chemicals.

This possibility may sound unlikely but it is what happened exactly two years ago tomorrow. A fire at a Basle warehouse run by Sandoz led to the discharge into the Rhine of large volumes of chemicals used in pesticides, polluting the river as far as Holland and causing a worldwide outcry.

The freshly excavated basins are a sign of the efforts the Swiss companies are making to minimise the chances of such an accident reoccurring. They are also a response to the increasingly tough anti-pollution laws in Switzerland. Such legislation is already in force in West Germany and seems likely to become more widespread across Western Europe, largely because of stronger interest in environmental matters on the part of politicians (nowadays including Mrs Thatcher) and the public.

Where does this leave the chemicals industry? In much of Europe the business is strong. It is one of the few areas of European manufacturing able to compete effectively with the US and Japan. At the same time many of the activities of chemicals companies are intrinsically bound up with causing pollution through the emission of solid, liquid or gaseous wastes.

It is reasonable to expect the discharge of these materials to be kept within limits. But there is also the argument that rigorous tightening of environmental laws could increase the chemicals sector's operating costs and hurt its competitive capabilities.

High growth markets

A look at Switzerland may clarify some of the arguments. Despite the dominance of the chemicals industry in Basle, on which one in three of its 180,000 citizens depends economically, it appears (at least to the short-stay visitor) to be relatively free from pollution.

This is only partly due to the natural fastidiousness of the Swiss in environmental matters. It also follows from the chosen strategy of the three Swiss companies to concentrate on the areas of the chemicals sector like drugs, crop-protection compounds and specialist plastics which combine low volume manufacturing with high levels of research.

Such activities are inherently less obtrusive in terms of pollution effects than the smokestack commodity-chemical plants with which the industry is normally associated. They are also associated with high growth markets.

Where the Swiss industry has earned lower marks, however, is in its ability to communicate effectively with the public. Executives at Sandoz, which like many Swiss companies has been by tradition highly introspective about its affairs, admit that the accident of two years ago emphasised this defect. The executives were unable to answer straightforward questions about what had happened and what the repercussions were.

This poor state of public relations hardly helps outsiders weigh up the risks and benefits of chemicals manufacturing. The apparently mystical nature of much of the business acts against the industry. While virtually everyone can imagine what goes on inside a plant making cars, washing machines or even microchips, it is much harder to explain the processes that lead to the creation of thousands of different types of chemicals for uses that are often highly obscure. Chemicals companies are therefore starting to realise the value of explaining the environmental aspects of their operations more fully to the public.

Peter Marsh

THE MONDAY INTERVIEW

A voice for the consumer

Stefan Wagstyl talks to Isao Nakauchi, Japan's chain store magnate

Mr Isao Nakauchi, a former street trader who once said he would deal in anything except women and drugs, is an unlikely member of Japan's business élite.

The founder of Daiei, Japan's largest supermarket chain, is the first retailer to sit among a legion of famous bankers and industrialists at the Keidanren, the powerful Japanese employers' federation.

There, 66-year-old Mr Nakauchi cuts a strange figure, with his colourful past and his passion for James Cagney, Marks and Spencer and collecting antique cash registers. As the newly appointed chairman of the Keidanren's public affairs committee, he beats a drum for one of the key modernisations that Japan has yet to accomplish – the liberalisation of distribution.

His views reflect official Keidanren policy. But the relish with which he fights for the rights of consumers must make some of the federation's manufacturers cringe. In particular, he laughs out loud at the myth spread by some Japanese businessmen, that Japanese consumers are unique in preferring high prices because they supposedly guarantee high quality.

"The present distribution system is one of the biggest obstacles standing in the way of reducing the cost of living in Japan, which is one of the highest in the world," says Mr Nakauchi. His campaign for retail reform is an uphill one since the chief opponents are small shopkeepers who are among the ruling Liberal Democratic Party's staunchest supporters. As the law stands, they have a virtual veto on the opening of new large stores in existing shopping streets.

But the work suits Mr Nakauchi down to the ground. First, he knows his enemy. He has had countless arguments with small store-owners who have tried to block Daiei's growth over the past 30 years. Secondly, he has determination. Having rescued Daiei from financial trouble caused by over-hasty expansion, Mr Nakauchi knows how to fight his way out of a corner. Finally, dealing with the politicians who back the small shopkeepers takes negotiating skill. Mr Nakauchi has been driving hard bargains every day of his working life.

His story begins in 1945 when he returned home from the Philippines after the Second World War where he had almost starved as a soldier. This, say those who know him, left him with a powerful determination to make sure he never went hungry again.

Amid the ruins and building sites of post-war Japan, Mr Nakauchi says he traded in what he could, mainly food. "When I came back from service there was nothing in Japan . . . It was a time of confusion. There was the black market." The idea of starting a chain store came to him while watching Angels with Dirty Faces, a James Cagney gangster film set against a background of US drug stores. "I saw the drug store and said to myself: 'We haven't got any in Japan'," says Mr Nakauchi.

In 1945, he joined his father at the family's chemist shop in Kobe, near Osaka. Within 18 months he opened a second shop and then another. The business grew quickly during the years of Japan's economic miracle as consumers found themselves with money to spend for the first time since the war. In 1957, the first store under the Daiei name was opened. "Daiei grew quickly because we opened a store almost monthly," says Mr Nakauchi.

But success brought Mr Nakauchi into conflict with Japan's small family stores. They objected to Daiei undercutting their prices. "They complained to my father," says Mr Nakauchi, "they knew I wouldn't listen."

Daiei spread from its base around Osaka in western Japan to Tokyo in the east. Mr Nakauchi specialised in buying out stores and groups of stores. He developed a reputation as a master of acquisitions, building a huge land bank which underpinned the company's sometimes fragile financial position.

But by the late 1970s, Daiei sales stagnated. The company diversified into restaurants and hotels. It also tried to follow its customers up-market by opening department stores.

Then Daiei was involved in a skirmish with Takashimaya, one of the grandest Japanese department store groups, in what was billed as a battle between the old and the new guard in Japanese retailing. Both companies wanted to sign a joint venture with Le Printemps, the French department store group, to open French-style shops in Japan. Eventually they agreed to a three-handed partnership – which immediately began to lose money.

The debt incurred through these investments pushed Daiei to the brink of bankruptcy in the early 1980s. The company closed down loss-making hotels and restaurants and Y25bn (£326m) was written off, closing most of the Le Printemps stores. The group was saved by its land portfolio. Property sales and a handful of development schemes put Daiei back on an even keel. After making losses in the three years to 1985, consolidated profits recovered to Y22bn pre-tax on sales of Y1,764bn in the year to last February.

As soon as Mr Nakauchi could breathe easily again he was back doing deals. Last year he bought a stake in Oriental Hotel, a development in his home city of Kobe. This year, at a cost of Y44bn, he bought control of Nippon Dream Kanko, a leisure centre company, in a deal negotiated in only two months.

Mr Nakauchi takes nothing for granted. "Even today there is trouble in the company," he says. But by working seven days a week he makes time for life outside Daiei. His interests range from Daiei's ownership of a baseball team to funding a University of Marketing and Distribution Sciences in Kobe.

● PERSONAL FILE

1922 Born, Kobe, near Osaka
1945 Returned from war service in the Philippines and joined father's drug store
1957 Opened first Daiei store
1970 President of Daiei
1987 Chairman and president of Daiei
1988 Chairman Keidanren public relations committee

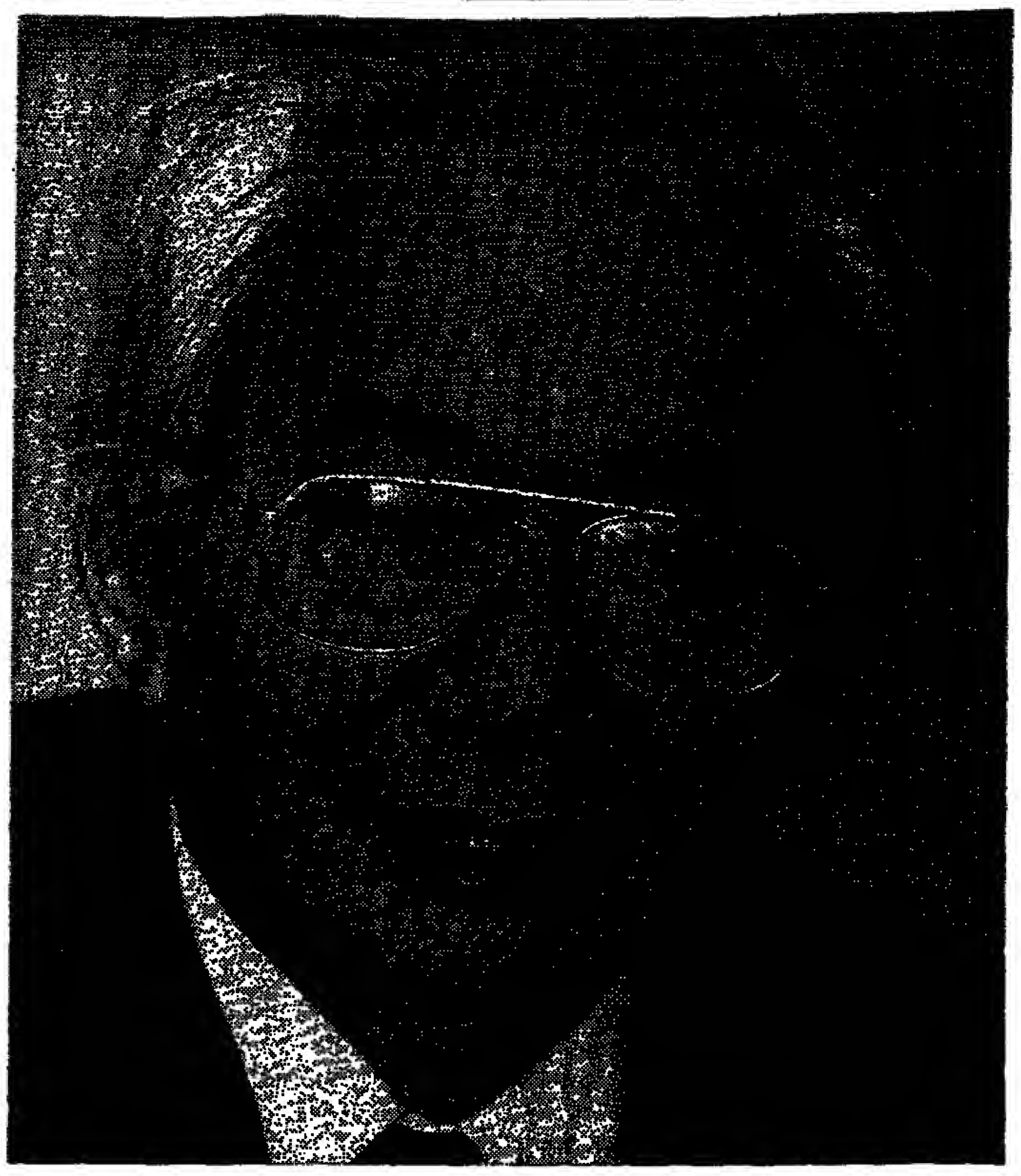
Another interest is Marks and Spencer, the British store group, which Mr Nakauchi admires above all others. He had the autobiography of Lord Sieff, the former M and S chairman, translated into Japanese. Mr Nakauchi loves Lord Sieff's slogan "Don't ask the price" because of the emphasis it places on the retailer providing value for money. But, in common with many other Japanese corporate chairmen, Mr Nakauchi's main concern outside his company is politics, especially the politics of business.

The liberalisation of retailing is his top priority. Mr Nakauchi has sheaves of statistics showing the inefficiency of the Japanese system. Independent stores account for 57 per cent of retail sales in Japan, against 3 per cent in the US and 5 per cent in the UK, he says. Japan has 1,350 shops for every 100,000 people – twice as many as in the West.

Regulations are the biggest obstacle to change, he says. Opening a store requires a company to make 73 applications for 26 separate approvals under 12 different laws.

Daiei, of course, would be a big beneficiary of changed regulations. But there is more to Mr Nakauchi's campaign than self-interest. He believes every consumer would gain from deregulation.

Many Japanese observers are sceptical about whether the Keidanren can win over the politicians on retailing. But Mr Nakauchi says public support for reform is growing. He dismisses the argument that Japanese consumers are uniquely happy to pay high prices in return for high quality. He says that Japanese consumers are just as responsive to low prices as everyone else. He predicts, for example, that when discriminatory taxes on imported alcoholic drinks are abolished next year, "there will be a great flow of Scotch whisky into Japan".



'Our distribution system is one of the biggest obstacles to cutting the cost of living in Japan'

Mr Nakauchi believes that at last the consumer has a voice in Japan. The recent surge in domestic demand, together with a slow-down in export growth, is transforming the country. On the one hand people want to buy daily necessities cheaply. On the other they have more than ever before to spend on luxuries.

One result is that people no longer regard imported goods as luxuries. A flood of imports from south-east Asian countries and from China is opening people's eyes, says Mr Nakauchi. Daiei is adapting to this change in tastes by opening low-priced discount stores on one side of the scale and, on the other, specialist shops for clothes, sports equipment and home electronics.

With a personal fortune estimated last year at Y65bn, Mr Nakauchi could afford to relax. But like many successful businessmen, he cannot let go. He even brings his hobbies to the office – his collection of 60 cash registers from around the world stands in rows outside his office, just below posters of James Cagney and another favourite, Humphrey Bogart. And he is building a dynasty at Daiei. One son is the executive managing director, the number three post. The other manages a Daiei hotel.

Mr Nakauchi dismisses the suggestion that he might be rich enough already. His model is Mr Seiji Tsutsumi, owner of Seibu, one of Japan's biggest department store groups, who regularly figures in lists of the world's richest men. "By comparison," says Mr Nakauchi, "I have only just started in this business."

The ingredients of criminal conspiracy

JUSTINIAN

The conviction of the three Irish people of a conspiracy to murder the Secretary of State for Northern Ireland exposes a peculiar feature of the English criminal law that evidently taxed the jury. The jury's repeated requests for elucidation of the judge's direction and the lack of unanimity in its verdict reflect the judge's pre-eminently fair summing up and the uncertainty as to the proper application of the law.

The basic ingredient of a criminal conspiracy is an agreement between two or more persons to carry out an "unlawful" purpose. To prove the offence the prosecution needs to do no more than establish the meeting of minds among those plotting the unlawful purpose. The crime is complete at the moment of agreement and it is quite immaterial that the conspirators have never begun to put their agreement into effect. The agreement is more than a mere mental operation, but it involves only spoken or written words, and does not require any other overt acts. In most, but not all, criminal prosecutions for conspiracy the agreement is established by proof of steps taken in furtherance of the agreement. Actions, such as surveillance of the home of a Minister and plottings of his movements in order to inform those to be selected subsequently to carry out the dastardly deed, are not in themselves unlawful. The penal sanctions for the conspiracy are applied to the avowed intention as reflected by embryonic action towards the consummated crime of murder.

Most legal systems do not have criminal conspiracy laws as such, but direct their attention to crime prevention by proscribing acts that are preparatory and sufficiently proximate to the commission of the consummated offence. The law relating to attempted crime takes care of the activity of individual terrorists, but does not seek to punish them for anything done at the earlier stage of planning their crimes.

If the three Irish people had not been arrested they would have been free to return to Ireland and pass their information into the terrorists network for briefing others who could execute the murderous deed. No doubt there is considerable relief among law enforcement agents at the ability to nip such activities firmly in the bud. But the lawyer can properly feel unease at the extension of the arm of the law beyond actions sufficiently proximate to the substantive crime and catch in its dragnet actions of preparation well short of carrying out the offence.

Until the 1960s the offensive conspiracy was infrequently resorted to. At that time the Crown began to circumvent difficulties in the paths of prosecutors, by using the charge of conspiracy. It was used for example to get around the obscenity laws which provide a defence of public good. Other difficulties of proving an offence were avoided by simply alleging the agreement to commit the offence. Many defendants, although implicated in the planning stages but subsequently pulled out of the criminal enterprise or took no active part in committing the offence, found themselves in the docks of criminal courts. The vice of a conspiracy charge is that it gives a semblance of unity to a prosecution which, by entrapping several defendants, results in complicated and protracted trials. The use of the charge of conspiracy thus possesses all the finesse of a Howitzer. Despite the consternation among defence lawyers at the growing employment of the conspiracy defence, Parliament in 1977 largely endorsed the use of the charge but, by a concession to liberal lawyers, pegged the maximum penalties for conspiracy to those prescribed for the consummated offence.

The crime is complete at the moment of agreement

Parliament nevertheless expressly preserved the offence of conspiracy to corrupt public morals. The excuse for leaving that judge-made offence intact was the review then pending by the Williams Committee on obscenity. That committee's recommendation to abolish conspiracy laws relating to obscenity has predictably been ignored.

Parliament also left untouched the other common law offence of conspiracy to defraud, which encompasses a range of unlawful agreements going beyond the law relating to theft and deception. It has long been established that a combination of persons to defraud may be criminal, although the projected deceit is not such that it will be criminal apart from the combination. Most, but not all, agreements to defraud will nowadays amount to obtaining some pecuniary advantage to deception. The Law Commission identified the major defect in the law arising from uncertainty as to what might constitute subject matter of an agreement amounting to a criminal conspiracy, which could be eliminated by restricting criminal conspiracies to agreements to commit substantive criminal offences. But at the same time the Law Commission recognised that an unqualified restriction of criminal conspiracies to such agreements might leave gaps in the law which only the retention of the common law conspiracy offence could cover.

The jury at Winchester last week, with some evident hesitation, thought that the three Irish people had agreed, with others unknown, to assassinate the Secretary of State. Their real crime was to engage in activities – not in themselves crimes – which were preparatory to, but only remotely proximate to, that deadly deed.